A SURVEY OF THE NEW ZEALAND FOOTWEAR MANUFACTURING INDUSTRY WITH SPECIAL REFERENCE TO CONDITIONS IN THE INDUSTRY PRIOR TO AND DURING THE LICENSING PHASE 1939-1949.

A THESIS
PRESENTED TO
THE FACULTY OF COMMERCE CANTERBURY COLLEGE
UNIVERSITY OF NEW ZEALAND

IN PARTIAL FULFILMENT
Of the Requirements of the Degree
MASTER OF COMMERCE

---

by
E.A. HARRIS
NOVEMBER 1950.

TABLE OF CONTENTS

PART THREE

PART FOUR

SPECIFIC EFFECTS OF PLANNING OF THE INDUSTRY

LIST OF TABLES

LIST OF FIGURES

PART ONE

INTRODUCTION

CHAPTER I.

INTRODUCTION.

(a) Scope & Method:

The theses of this paper are, that if we accept Economic Nationalism as a fact, then -

(1) Planning and Control by the State of the Footwear Manufacturing Industry in New Zealand, during the period 1939-1949, has been in the best interests of the Industry(1) and necessary for the welfare of the public in New Zealand.

(2) That such planning and control has been partially successful in its purpose.

Since the application of the rationalisation principles of the Industrial Efficiency Act 1936, to the Footwear Manufacturing Industry, opinions have differed as to its effectiveness as a form of control; but all have agreed that an efficient footwear manufacturing industry is conducive to the well-being of the community and that 'rationalisation(2)' is the best method of achieving it.

In order to provide the institutional background I have outlined the history of the growth of the Industry and the conditions therein pertaining prior to licensing.

---

(1) See page 10 for the definition of the Footwear Manufacturing Industry. Wherever used in the text the term, 'the Industry' refers to the Footwear Manufacturing Industry.

(2) 'Rationalisation' is here used in the special legal sense as has come to be used in N.Z. It means the application of the principles of the Industrial Efficiency Act 1936.

Import Control Regulations were enacted on 8th December 1938 and gave the Industry complete protection from importation of footwear and provided scope for the implementation of the Industrial Efficiency Act through The Industrial Licensing (Footwear-Manufacture) Notice 1939. This rationalisation scheme is outlined briefly and its implications studied.

The effects of entry and restrictions thereon are shown by means of Chamberlinian Analysis(3). This shows the need for Price Regulations in order that monopoly influences may be reduced once entry is restricted.

Price Regulations are discussed and the effects of these forms of organisation on the Industry and on the consumer are then stated briefly.

Future trends are also shown.

In order to avoid overburdening the text lengthy explanatory notes are included in the appendix.

(b) Importance of Study:

The importance of this study is two-fold. Firstly, the aim of the Industrial Efficiency Act 1936 was to promote the Economic Welfare of New Zealand(4) by various measures of industrial efficiency. The Footwear Manufacturing Industry was the first major industry to become licensed under this Act

---

(3) E.H. CHAMBERLIN, "The Theory of Monopolistic Competition" Harvard University Press. Sixth Edition. 1948, 314.pp.

(4) From The Preamble to the Industrial Efficiency Act 1936.

and the introduction of the footwear plan with the setting up of the appropriate industrial committee for the Industry thus marked the commencement of a new era in the industrial development of the Dominion -- a development along systematic organised lines of self government under the jurisdiction of the Bureau of Industry.

Secondly, medical evidence has emphasised the need for correctly fitting and serviceable footwear. There is a demand for footwear in every household in the country, although such demand varies in intensity.

To the extent that any enactments purport to increase the quality and to promote efficiency in the Industry, then welfare of the people must thereby be increased.

(c) Difficulties of the Study:

Through lack of data on a regional basis I have had to make a more general approach to the subject based on published information concerning the industry as a whole.

Apart from the Official Statistics of Factory Production, the only available information on footwear manufacturing conditions is contained in a preliminary report of the Committee of Inquiry appointed in 1929(5) and in the

---

(5) Appendices to the Journal 1929 H44^{A} - Footwear Industry Preliminary Report (Dealing with the Production of Footwear) of the Committee of Inquiry. Government Printer Wellington, 24.pp.

general statement of the Secretary of the New Zealand Manufacturers' Federation made before the New Zealand Tariff Commission, June 1933(6).

Further information has been gleaned by personal interview and I am indebted to units of the Industry and officers of the Department of Industries and Commerce for their assistance(7).

A further difficulty has been to confine the limits of the field. The actual manufacturing side dominates the entire industry and is the side that is productive of the quality and health maintaining structure of footwear. However, of necessity, it must overlap into the distribution and consumption spheres as conditions therein are closely correlated to the manufacturing side, and to gauge the success of any planning and control, recourse must be made to the study of its effects on the consumer.

Thus to confine the study to some extent I have dealt only with the major controls on the manufacturing side, and their effects on the Industry and on the consumer.

---

(6) A.E. MANDER - "New Zealand Industries and the Tariff" (H.H. Tombs Ltd., Wellington). 1933. 47.pp.

(7) In particular I acknowledge permission granted to use the following unpublished reports:- (1) The Footwear Industrial Plan Committee's Newsletters to the Industry.

(2) W. DENBY, "The Footwear Manufacturing Industry". Department of Industries and Commerce. Bulletin Vol.1, No.5, 1949 (Restricted Use).

(d) Definitions:

The New Zealand Footwear Manufacturing Industry(8) is deemed to mean that part of the Economic activity which is concerned with the manufacture, in New Zealand, of footwear for sale.

Manufacture means and includes:

(a) Any or all of the processes relating to footwear known as clicking, machining, making, finishing and cleaning; and

(b) Every partial process of the above processes as well as any substituted process.

It does not include the repairing of footwear.

Footwear includes footwear of whatsoever kind and whatsoever materials, but does not include surgical footwear or bespoke orders.(9)

(e) Background to the Study:

Prior to the world depression in 1930, New Zealand was among the best examples of International Economic Specialisation. Through the export of British capital, New Zealand has benefited from the large scale industry in the United Kingdom and in return, the United

---

(8) It has been stated that an industry cannot be defined. But in order to study a particular field, some classification for the particular purpose in view is necessary. R. TRIFFIN. "Monopolistic Competition and General Equilibrium Theory". (Harvard University Press) 1941, 197.pp.

(9) This definition has been adapted from the definition contained in The Industry Licensing (Footwear-Manufacture) Notice 1939. (Serial No.1939/150) and its amendments.

Kingdom had obtained cheaper food from a more highly productive and efficiently managed New Zealand primary production.

However, on such an undifferentiated economy, the impact of the depression was disastrous, and a marked acceleration of the trend towards regulation, control and even direct exercise of economic functions by the State was noticeable.

This trend commenced with State co-operation with primary producers.(10) Various additions to this machinery of control were enacted by the Government as recovery measures between 1931 and 1935(11). Enabling legislation to provide for the rationalisation of manufacturing industries was prepared in 1934 but not proceeded with.

Prior to 1936, the State had been more concerned with policies directed towards primary producing industries. A mild measure of 'protection' through Tariff Policy had been acknowledged but with New Zealand's Custom Tariff on United Kingdom goods especially, among the lowest in the world, it could not be said that there was a conscious policy of 'protection' as the United Kingdom was our main source of imports.

The serious problem of unemployment however, focused attention on the potentialities of the Dominion's secondary industries. Here were seen possibilities of absorption of

---

(10) 'The germ of this idea is seen in the preamble to the Meat Export Control Act 1921-22' - W.B. SUTCH "Recent Economic Changes in New Zealand" (Wellington) 1936, p.39.

(11) For a detailed list of the more important enactments see Footnote p.110 - Economic Record (Melbourne). Oct.1939. "The State and Industry". B.R. TURNER.

New Zealand's then 'over-population' (in terms of the absorptive capacity of farming industries).

Simultaneously overseas developments were modifying the foundations of the Dominion's economy and from the international economic specialisation mentioned above New Zealand was being forced by Economic necessity towards the policy of Economic Nationalism. The imposition of quotas and restrictions on the entry of New Zealand produce into the United Kingdom, and the world-wide trend of restrictions on International trade did not hold out any possibility of expanding our market for primary produce.

The fostering of such secondary industries "as can produce commodities economically for the maintenance and improvement of our standard of living, if imports do not expand in proportion to the population"(12) was one of the "ten points of policy"elaborated in the Labour Party manifesto issued on 9th December 1935.

This had its most notable implementation in the Industrial Efficiency Act 1936 which contained measures to increase the pressure towards greater efficiency in secondary industries in New Zealand.

The second phase of the State's activity was associated with Import Selection and Control and Price Regulations, although it can be stated accurately that this

---

(12) From J.A. LEE "Socialism in New Zealand" (London) 1938, p.39-42.

phase of activity was latent in the party's policy from its assumption of power in November 1935(13).

The following quotation by the Honourable Walter Nash written in 1936(14) summarises this trend towards Economic Nationalism which forms the background to this thesis:-

"To-day the common conviction in New Zealand and in other countries too, is that economic forces cannot be allowed to operate without restraint or regulation. There is a determination that such forces must be rationally controlled so far as is humanly possible to control them and that the sole aim and object of such control should be the provision of the highest possible standard of living consistent with a country's natural resources and its ability to utilise them effectively."

However, it must be realised that Economic Nationalism is not an ideal in itself but only the creation of an environment in which other ideals can be safely and conveniently pursued(15).

(f) <u>The Demand for Footwear</u>:

Economics includes the notion of scarcity and allocation of these scarce means to alternative uses(16). We

---

(13) B.R. TURNER, Op.cit. p.118.
(14) From the introduction to "Recent Economic Changes in New Zealand." Supra.p.17.
(15) It will not be desirable in all circumstances. Here, however, the existence of such is taken as given. We are concerned with planning and control of the Industry within the framework of Import Control.
(16) For a full definition of Economics and its implications see L. ROBBINS "An Essay on the Nature and Significance of Economic Science" (London) 1948. 160.pp.

note that economic activity is carried out to allocate these means to their best or most efficient uses.

Thus when discussing the position of the individual firm, or the industry, whether they operate under Perfect Competition, Imperfect Competition or Monopoly conditions, we must take into account that the entrepreneur, when purchasing inputs for his enterprise, has regard to an assumed demand curve for his product and uses scarce means accordingly. It becomes necessary then that we should know the conditions of demand for footwear. Even though we may or may not agree as to the 'Sovereignity of consumer's behaviour as the supreme mover of the economy' we must at least agree to his partial influencing of the type of consumers' goods available, or alternatively that he is "educated" to want what is made available to him(17). This may be achieved through advertising or be the result of a culture pattern.

There has been a demand for footwear of some kind or other since ancient times and down through the ages 'creations' of leather as the basic material, have become more and more in demand.

Very little detailed research has been made on this subject, but the consensus of opinion among manufacturers as well as distributors and retailers of footwear is that

---

(17) T.B. HOFF "Economic Calculations in a Socialist Society" (London) 1949, Ch.III and Appendix B.

demand is relatively elastic as to income and relatively inelastic as to price.(18, 19)

In some instances poorer quality goods can be classed in the same category as inferior goods.(20) Thus when income rises the tendency may well be, to substitute towards higher quality footwear.

The Board of Trade working party report supports this view that the demand for Boots and Shoes is income elastic, when it states that full employment creates a "higher and more sustained public demand for Boots and Shoes"(21). Also during the depression it was found that the average spending power of the people everywhere fell so markedly that lower grades of footwear were sought(22).

In the decade commencing 1935, there is a noticeable increase in the per capita consumption of footwear in New Zealand(23). Qualities, perhaps could have deteriorated in the period, or the increase in money incomes could have been partly inflationary, or both. Furthermore the 1935 figures include consumption of, in the main English footwear, whereas in 1946 consumption was mainly of local production, and thus not strictly comparable.

---

(18) The concept of elasticity of supply and demand is a device for measuring the percentage changes in quantity supplied or demanded pursuant to small percentage changes in prices or in money incomes. K.E. BOULDING "Economic Analysis" (New York) Revised Edition 1948. Op.cit. p.128, Et.seq.

(19) See also J.R. HICKS "Value and Capital". Second Edition (Oxford) 1948. Ch.2.

(20) Ibid. P.28.

(21) "Boots and Shoes" Working Party Reports. H.M. Stationery Office. London 1946. p.31.

(22) ROY E. CAMERON "The Victoria Boot and Shoe Industry". Economic Record (Melbourne) Vol.XIII. June 1937. p.43.

Such figures then do not give conclusive proof of the degree of income elasticity in New Zealand.

However, more important to our study is the elasticity of demand to price changes. No study of New Zealand's conditions is available.

To some extent, the mode of life in the United Kingdom, Australia and New Zealand is similar. Culture patterns spring from the same common source, influenced of course, by climatic and other conditions in their respective countries. With the suitability of styles and types of English and Australian footwear for New Zealand conditions it is possible that, generally, the conditions of demand are the same in all three countries. In England it has been noticed that the market is fairly inelastic to price,(24) while from the conditions described in the Victorian Industry, price inelasticity is existent there also.(25)

While we are unable to give any proof of the relative inelasticity of demand to price changes, the conditions in the Industry would denote that manufacturers are faced with less than elastic conditions of demand. In other words as output increases the additional supply is only

---

(23)

	1935:	1946:
Men's Boots and Shoes consumption per capita was	1.0	2.0
Women's Shoes " " "	2.4	2.5

1935 figures obtained from 'Recent Economic Changes in New Zealand', Op.cit. P.126. 1946 figures obtained from the Footwear Industrial Plan Committee's newsletter to the Industry - (unpublished).

(24) 'Boots and Shoes', Op.cit. p.153.

(25) R.E. CAMERON, Op.cit. p.43.

absorbed at lower prices. This is denoted by the degree of advertising found in the Industry, the differentiation of products and the other trade practices indulged in to fragment the market in favour of their respective products.

The existence of substitutes also affects the position. It has been noted that in periods of low income, people substitute to the use of slippers as these are lower in price relative to boots and shoes.(26) Coupled with the possibility of repairing shoes, to increase their life, this could have the effect of making quite substantial reductions in price necessary more especially in depression times, in order to increase the sales of footwear. On the other hand, they would have the effect of imposing a limit on increases in footwear prices.

No conclusive evidence appears to support the retailers' contention of a relatively inelastic demand to price changes, but the conditions in the Industry would denote that there is some degree of price elasticity in the demand for footwear.

There appears to be ample scope for research into consumers' demand, not only for footwear, but also for other basic commodities in New Zealand.

---

(26) Ibid. p.43.

PART TWO

SURVEY OF THE FIELD PRIOR TO LICENSING

CHAPTER II.

CONDITIONS IN THE INDUSTRY PRIOR TO 1939[1]

(a) Historical:

"Fifty years ago the footwear operator was probably the worst of an oppressed class of artisans ..... who accepted the conditions of the day with a feeling of frustration in that he could not turn his hand to anything else to make a living. He was obliged to work under appalling conditions for low rates of pay and invariably on broken time." Such is the opinion of the late Mr. W. Denby, one time Technical Adviser to the Footwear Plan Industrial Committee[2]. Conditions however, improved in the late "nineties" with the implementation of industrial and social legislation, and the growth of the power of Trade Unionism.

At this time the workman did the whole of the operation in his particular department. For instance, in 1891 with a total of 47 footwear factories, only motive power of 46 H.P. was used, whereas in 1920, with a greater division of labour following on increased mechanisation, motive power had increased to 960 H.P. for 64 establishments.

---

(1) Besides from the various references connotated in this chapter, I have obtained much information herein quoted from personal interviews with the ex Chairman of the Footwear Plan Industrial Committee (also Managing Director of one of the largest footwear manufacturing units); from Governmental officers concerned with footwear production; and from the major units engaged in footwear manufacturing in Christchurch.

(2) From an unpublished article on the "Footwear Manufacturing Industry". Op.cit.

Even so in 1891 it was the most important of the true secondary industries, employing 1,943 persons, whose output was valued at £403,736 (£208 per head). The average size of the manufacturing unit, according to number of persons per factory was 41. This compares favourably with the Victorian Shoe & Boot Industry of the same year.(3)

Gradually the team system developed in this growing industry -- whereby a small team of 4 or 5 combined to preform the operations required in this particular department. This team system eventually gave way to the chain method which we know to-day. Highly specialised machinery was developed and the operator became a specialist in a very small operation of the complex procedure of modern shoe making.(4)

(b) The Industry Examined:

(1) Up to 1929. As shown above the average number of employees per establishment in 1891 was 41, whereas in 1929 it had fallen to 31 persons. In the United States, where the boot and shoe industry is reputed to be the most efficient in the world the trend between 1899 and 1919 is quite different:-

In this period "the increase in size of plant was so pronounced that it resulted in an actual reduction in the

---

(3) Victoria Boot & Shoe Industry in 1891 was:- 92 establishments employing 3,787 hands; average numbers per establishment 41. From the New Zealand Year Book 1892. (Wellington).

(4) See Appendix A for an outline of the various Departments in shoe making as well as the types of materials etc. used and overhead expenses and calculations.

number of establishments"(5).

The following comparative figures for the year 1927 emphasises the lack of progress made by the Industry in New Zealand:-

TABLE I. (6)

Boot & Shoe Statistics - 1927.

Country:	No. of establish-ments:	No. of Persons		(a) Added Value Per Head:
		Total:	Avge.per Estab.:	
New Zealand	81	2,376	29	£251 (b)
Australia	356	18,783	52	£241 (b)
Canada	191	15,433	80	£304
United States	1,357	203,110	150	£456

Notes: (a) Value figures converted to sterling at par rates.

(b) Added value in these two countries would be about the same if -

(1) an adjustment was made for values of materials used.
(2) Value per head in N.Z. probably higher because of higher footwear prices, thus allowance to be made for this factor.

The inability to compete with imports, at about the same level of tariff protection is also another example of the less efficient trend of the industry. Table II shows the

---

(5) G.C. BILLING "Size and Efficiency in New Zealand Industry". The Economic Record (Melbourne). Vol.XIII. June 1937 -p.60 (Taken from a quotation in Black "Production Economics" p.580.
(6) Ibid. p.61.

percentage change in exports from the United Kingdom to both New Zealand and Australia.

TABLE II.(a) (7)

Exports from United Kingdom in 1,000 Dozen Pairs.

Country:	Ave.1909-11:	Ave.1927-29:	Percentage Change:
New Zealand	73	124	Plus 70
Australia	114	53	Minus 53

(a) Figures refer to leather footwear only. In this period imports into New Zealand from Australia declined, largely as a result of Imperial Preference agreements.

Quantity figures for all footwear made show still further the relative inefficiency of the New Zealand factories.

Country:	1927-28:	1928-29(8)
New Zealand; pairs per person	618	597
Australia " " "	880	910

It is interesting to note that in the period 1891 to 1929, of twelve protected industries decreases in size occurred in only clothing and boot & shoe factories.

The above comparisons show that New Zealand Footwear Industry was considerably less efficient than in the other countries with which it was compared.

---

(7) Ibid p.61.
(8) Ibid p.62.

The Committee of Inquiry report[9] supported this view. They suggested an additional tariff of 5% for a period of five years in order to create conditions that would allow the industry to recover its position. Their investigation revealed relative depressed conditions in the industry and clear evidence that the local industry was supplying a much smaller proportion of the total trade than pre 1914-18 war or for that matter in the post war period. From inspection of 14 representative accounts "only three were returning a reasonable rate of profit on capital invested, two were providing a moderate but insufficient profit, while nine were definitely unsatisfactory."[10]

The causes of depression were summarised as follows:

(a) Unsatisfactory quantity output of factories as related to machinery and facilities.

(b) Multiplicity of designs of footwear manufactured in individual factories and manufacturers' present inability to specialise.

(c) Competition from overseas in footwear which could be readily and economically manufactured in the Dominion.

(d) Vagaries in taste and changes of fashion of women's footwear.

---

(9) Appendices to the Journal 1929. H44[A]. Footwear Industry Preliminary Report (Dealing with the Production of Footwear) of the Committee of Inquiry. Op.cit.

(10) Ibid p.3.

(e) Apparent lack of cohesion and initiative among manufacturers, and failure to discuss frankly and freely their problems and difficulties.

(f) Lack of co-operation in dealing with marketing problems.

(g) High costs of distribution.

(h) Non-flexibility of labour conditions.

(i) Unsatisfactory layouts of plant and machinery.

(j) Lack of sustained national propaganda to assist sales and create goodwill towards local industry.

(k) Lack of satisfactory costing system.

(l) Inadequate control of management over factory operations.(11)

(2) <u>During the Depression</u>: Subsequent on the imposition of an additional 5% Tariff on the Imperial Preference rate some of the above summarised causes of depression were temporarily halted or partially eliminated. In the main production line, boots & shoes, the local production rose in 1930 to 112,898 dozen pairs while imports of roughly comparable types declined to 79,242 dozen pairs.

The last 'normal' trading years in the Industry were 1923 and 1924,(12) and comparison with this base period shows the growth of the New Zealand Industry since then.

---

(11) Ibid p.10.
(12) Footwear Industry Preliminary Report 1929. Op.cit p.2.

TABLE III.

Volume of Boots & Shoes 1923-1938.

Year:	Local Production:	Imports:
1923-24 average[13] (base)	100	100
1927	90.5	94.0
1929	86.4	72.4
1933	99.3	27.0
1937	121.0	58.1
1938	114	34.5

This sustained growth of local production has not been achieved along any efficient or rational lines. The number of establishments throughout the early 1920's was maintained at 81 and output per head was 644 pairs in 1920 falling to 560 pairs (all types) by 1926. It was not till 1932 that the 1920 output per head was exceeded and this mainly by the increased production of slippers. The size of the establishments, measured in personnel per factory stood at 33 throughout the early 1930's compared with 38 in 1920 and 41 in 1891.

If size is to be one criterion of efficiency then little progress has been made by the footwear industry. In 1932 only 6 firms employed over 100 workers. It is interesting to note that in 1931, at the peak of the depression no firms employed more than 100 workers.

(13) Prior to 1928 the classification of Imported Boots & Shoes, wholly or partly of leather, contained some non-comparable lines. However, since then local production and Imports are more closely comparable.

Any recovery made in the depression years was partly due to decreased purchasing power of the public making for substitution to the lower quality, but hard wearing shoes that New Zealand could produce on a competitive basis.(14) This made for increased competition between local manufacturers and combined with smallness of orders forced the industry further away from the ideal of specialisation.

It will be noted that in depression years factory prices fall faster than retail prices. Because of the number of factories operating, the majority with surplus capacity, and for a while surplus output, the manufacturers were soon at the mercy of retailers. Prices were forced down still further by the retailers' desire to sell to the consumer at prices to equate the reduced purchasing power of the public. Simultaneously the demand is for a more hard and long wearing shoe. Manufacturers thus faced with fierce competition from rival producers, were compelled to turn out better-value products, and to sell same, the producers were willing to accept prices below the full cost of production. In order to stay in business they were willing to sell as long as it yielded a surplus above the costs he would incur if he did not manufacture at all.

---

(14) Prior to Import Control New Zealand did not manufacture to any great degree Men's and Women's high grade shoes - See Appendices to the Journal H44-1940. p.12.

As Mrs. Robinson has stated "If an industry is depressed the marginal unit of production will probably be the output of a more or less typical firm working under conditions of no exceptional difficulty and its price will be equal to the marginal prime cost of a firm working in those conditions" (15). Thus a typical firm would barely cover prime cost and an efficient firm will more than do so, but may make less than full cost of production.

Providing and to the extent firms can borrow(16) they will carry on in the hope of eventually covering at least marginal prime costs. This will further aggravate the position and is likely to persist as long as there is surplus capacity in the industry.

There is the possibility that this competitive position will not be conducive to efficiency. In depressions the most efficient firm will be producing below full capacity and will thus lose economies of scale and costs may even increase to such an extent that the once most efficient, in a period of stable output, has a higher cost than the smaller firm, in times of fluctuating output.

On the whole the depression in the Industry was

---

(15) E.A.G. ROBINSON "The Structure of Competitive Industry" (Cambridge) 1945 - p.90.

(16) The power to borrow is perhaps more limited than fully realised. The report of a 'Survey of reports of credit difficulties, Department of Commerce, U.S.A. 1945' showed that credit difficulties decrease with an increase in the size of a firm. JOSEPH STEINDL "Small and Big Business (Oxford Monograph Series) 1945, p.5.

TABLE IV. (3)

Comparative Table of Statistics in the Footwear Industry.

Year:	No. of Est.	Persons Employed	Ave. size (No. of persons)	Plant per Est.	Added Value per head:	Total Value per head:	Output per head:	Output Adults Leather Footwear:	Slippers per head:	Net(1) Value per est.:	Notes on Table:
	Nos.	Nos.	Nos.	£	£	£	Prs.	Prs. per head:	Prs.	£	(1) Net Value per establishment consists of Total Value of Products less cost of materials, wages and other expenses. (Other expenses do not include interest on capital).
1911	74	2,072	28	N.A.	137	299	720	690	32	N.A.	(2) This figure includes rubber and canvas footwear as well as slippers.
1920	64	2,447	38	1,602	227	590	644	600	10	N.A.	(3) Sources are (a) statistics of Factory Production. (b) Monthly Abstract of Statistics. Both publications of the Census & Statistics Dept. Wellington.
1924	81	2,473	31	1,583	298	548	625	597	7	2,676	
1926	81	2,541	31	1,629	239	471	560	537	6	970	
1928	81	2,338	29	1,630	258	500	621	561	3	1,314	
1929	75	2,293	31	1,702	246	499	598	545	3	1,040	
1930	71	2,307	33	1,882	255	524	700	587	59	1,417	
1931	72	2,364	33	1,844	250	483	705	571	90	1,482	
1932	69	2,183	32	1,808	238	463	758	575	140	1,016	
1933	70	2,277	33	1,744	235	452	864	634	190	1,256	
1934	71	2,429	34	1,713	215	438	939	593	283	945	
1935	76	2,541	33	1,592	213	434	996	609	320	852	
1936	75	2,788	37	1,730	191	409	1,004	589	355	827	
1937	71	3,108	44	1,990	209	445	1,033	566	389	1,232	
1938	70	3,081	44	2,065	219	450	1,057(4)	538	436	1,354	
1939	69	3,075	45	2,115	203	441	1,069 "	557	404	521	
1940	71	3,731	53	2,328	242	500	1,121 "	552	425(2)	1,750	
1941	76	4,384	58	2,758	254	581	1,181	549	348	1,884	
1942	76	4,620	68	2,939	289	640	1,359	616	455	3,297	
1943	76	4,513	60	2,990	322	733	1,118	571	386	3,488	
1944	80	4,518	57	2,900	337	781	1,177	600	393	3,035	
1945	82	4,569	56	2,907	361	800	1,151	543	381	3,039	
1946	90	4,660	52	2,929	365	764	1,107	496	315	2,026	
1947	101	4,967	49	3,361	406	809	1,176	493	344	2,039	
1948	113	5,259	47	N.A.	445	939	1,195	517	373	2,258	

(4) The years 1938,39,40 include large unclassified miscellaneous productio. Money values thereof have been converted to volume of production by dividing such money values by the per pair value of adults shoes in each year.

not conducive to efficiency. The position of the Industry can be gauged from Table IV.

The output per head tended to rise mainly through the increased production of slippers. The 1920 volume of output was reached some time in 1932. Both the added value and total value per head rose for a while but then declined to a level below the level of the late 1920's.

Some recovery was thus made relative to the position held in the early 1920's.

Taking size as another measure of efficiency there appears to be little growth in this direction. The number of persons employed has tended to fall during the depression. The subjoined table would denote that this loss of persons has been greater in the larger, and generally the more efficient firms(17).

TABLE V. (18)

No. of Firms in each Size Group.
- Size based on Employees engaged therein.

Year:	Under 6	6-10:	11-20:	21-50:	51-100	Over 100:	Total Firms:
1929	17	9	14	21	8	6	75
1930	14	11	16	15	10	5	71
1931	36	16	11	8	1	-	72
1932	16	12	16	11	8	6	69

(17) The optimum firm is discussed in Chapter IX.

(18) Compiled from data obtained from The Statistics of Factory Production - Government Printer, Wellington.

Perhaps also the size of the firms would have tended to decrease still further had there been a reduction in the short time worked. The incidence of short time was far greater in the Industry than in most other industries.

Short time worked in the Industry(19) showed an average per year in 1931 of 126 hours per male worker and 98 hours per female worker, while in 1933 the figures were 85 hours per male and 50 hours per female worker. Comparative figures for all industries show that in 1931 the average was 56 hours per male and 56 hours per female and in 1933, 69 hours per male and 69 hours per female.

(3) After the Depression:

This period marks the beginning of an upward movement in the cycle of prosperity for the Dominion. By reason of increased wage rates, purchasing power of workers had been enlarged and "in general, factories in New Zealand," states the Annual Report of the Industries and Commerce Department,(20) "have worked at full capacity, with substantial increases in turnovers."

However, towards the close of the period uneasiness was prevalent in some manufacturing industries who felt that increasing importations from overseas were adversely affecting their trade.(21)

---

(19) Ibid.
(20) Appendices to the Journals 1937, H44, p.22.
(21) Ibid p.36.

Imports of adults leather footwear had been increasing steadily from the depression low of 31,525 dozen pairs in 1931 to 73,169 dozen pairs for the calendar year of 1937, a 132 per cent increase, while in the comparable period ended 31st March 1938 local production had shown but a 32% increase on the 1931 figures. This is partly a reflection of the income elasticity of demand for footwear in as much as when purchasing power increased consumers tended to substitute towards the higher grade imported article. Thus the increased demand was being diverted to importations and the local industry tended also to lose some ground it had gained during the depression. Output pairage per employee had risen in these six years from 705 to 1,033 though value dropped from £483 to £445 per head,(22) and this while costs and prices showed a tendency to rise because of a shorter working week and a higher wage structure.

Towards the close of this period the Industries and Commerce Department reported that the Footwear Manufacturing Industry had expressed a fear that they would be unable to compete with imported footwear.(24) This soon became apparent and although the year had started with big orders being placed by retailers, the demand was not sustained. In anticipation of rising prices, the retailers had acquired stocks of locally produced goods and had placed large orders overseas earlier in

---

(22) See Table IV supra. Net value per head also showed a substantial decline in the period.
(23) In 1936 a 40-hour working week was introduced, and wage rates increased as well.
(24) Appendices to the Journals. 1937. H44. p.36.

the year. When these orders arrived stocks were unduly high and the New Zealand manufacturers' position became difficult(25).

In a survey made before the amendment of the Tariff it was found that a cross section of the Industry was making little or no profit.(26) Some units were hard pressed by business conditions, and were forced into liquidation. According to the Statistics, the number of establishments dropped from 76 in 1935 to 70 in 1938.(27)

Short time was still being worked in some footwear factories as late as 1937, while overtime in 1938 did not show any appreciable lift over previous years. Both raw material and labour costs had risen as well.(28) To the extent of the market available to the New Zealand producers there tended to be internal competition mainly by price cutting. In order to stay in business some made use of their reserves, and ceased to pay dividends, while a number found it necessary, for financial reasons, to improve their asset position by writing up their value through fictitious amounts of non-existent goodwill.

It was with such conditions in mind the Industry applied to the Government for, and was successful in obtaining a revision of the tariff on the 1st March 1938.

---

(25) Appendices to the Journals. 1938. H44. p.34.
(26) In 1939 the net value per establishment dropped to the very low figure of £521. See Table IV supra.
(27) The Census and Statistics Department's Annual Report on Factory Production 1936 and 1939. (Government Printer) Wellington.
(28) Appendices to the Journals. 1938. p.34.

(c) Tariff policy and footwear:

Up to December 1938 the Industry had always had a measure of 'protection' by means of customs tariff.

By 1929 it had been increased to 25% on United Kingdom boots & shoes of leather and had been maintained at that level except for approximately 3½ years following the Tariff Commission Report of 1934.(29)

This Tariff Commission was set up pursuant to the Ottawa Agreement between Commonwealth countries in 1933. Their order of reference was to enquire into the Tariff policy of New Zealand and in particular to carry out any adjustments necessary to implement clauses 6 and 7 of the above agreement. By these clauses the Commonwealth countries undertook that "Protection by tariffs shall be afforded against United Kingdom products only to those industries which are reasonably assured of sound opportunities for success." They also undertook "where necessary to reduce protective duties as speedily as possible to such a level as will place the United Kingdom producer in the position of a domestic competitor"(30).

The Commission's Report stated that determination of requirements was clouded by such economic disorders as currency instability, abnormal unemployment and quantitative regulations of imports by other countries.(31)

---

(29) Appendices to the Journals. 1935. H28.
(30) W.B. SUTCH. Op.cit. p.53.
(31) Appendices to the Journals. 1935. H28. p.6

However, they assumed that world depression and trading conditions were but temporary phenomena and "that world economic life and international trade will be restored in substantially the same form and governed by substantially the same principles as prevailed before the depression."(32) Also that "British markets for our exports were indefinitely open at prices satisfactory to us."(33)

In the light of these assumptions and following the competitive advantage against imports that had been given by the raising of the exchange rate at the beginning of 1933 to 25% approximately, the lowering of the British Preferential Tariff rate to 20% was not unexpected by some manufacturers in the Industry.

Within a short time however, the advantages accruing from exchange alteration were imputed into the costs of raw materials, and the Industry steadily lost ground to importations as purchasing power recovered after the slump. On the 1st March 1938 the tariff was restored to 25%.

The effectiveness or otherwise of this move is hard to trace as before the year was completed import selection and control were implemented. It was reported(34) that the tariff amendment would contribute largely to the solution of the difficulties confronting the Industry but that the full

---

(32) Ibid. p.6.
(33) Ibid. p.7. These assumptions did not fit the then trend or future trends of international trade, but they realised they had to adopt some such assumptions in order to arrive at a logical conclusion.
(34) Appendices to the Journal 1938. H44. p.35.

benefits would not be felt until retail stocks became liquidated. Optimism appeared to be becoming increasingly apparent in the Industry and in certain directions attention was being given towards manufacturing lines not previously undertaken in New Zealand.

The optimism, however, did not appear justified in the light of past experiences of the effectiveness of tariff protection.

In effect through the imposition of protective tariff the market for footwear in New Zealand became fragmented -- a section existed for imported footwear, mainly from the United Kingdom, and a section existed for New Zealand production. Actually the seller in one sector was always a potential seller in the other sector. Thus often one sector encroached on the other but in the long run imported and home produced goods both held a portion of the market. Any increase in tariff protection tended to increase the size of the home producers' sector at the expense of the importer. All sorts of irrational preferences were set up in order to make the market imperfect both as between imported and locally produced footwear, as well as between the various units of the local Industry. The above pages give ample evidence of the existence of internal competition by price cutting, but there seems to be little competition on the side of efficiency.

CHAPTER III.

IMPORT SELECTION AND CONTROL.

(a) General:

The Import Control Regulations were gazetted on the fifth of December 1938 and came into force the following day.(1)

By this enactment, importation of all goods into New Zealand was prohibited unless a license was granted by the Minister of Customs or by any licensing officer to whom authority had been delegated by the Minister.

Import Control had been an integral part of the 'insulation' policy of the New Zealand Government and was latent in their programme from their election into office in 1935.(2)

The preamble to the regulations includes the notion of furthering 'economic and social welfare' and states inter alia "that the prohibition of the importation of goods hereinafter referred to is necessary in the public interest and to the end that the economic and social welfare may be promoted and maintained and to enable the Reserve Bank of New Zealand to fulfil its functions of regulating and controlling the transfer of moneys from New Zealand and the disposal of moneys that are derived from the sale of any New Zealand products and for the time being are held overseas ....."(3)

---

(1) Statutory Regulations Serial No.1938/161.
(2) For a full description on this point see B.R. TURNER. Op.cit. p.118.
(3) Statutory regulations Serial No.1938/161.

(b) The effects of Import Control on the Industry:

Primarily introduced to ration a scarce commodity, namely foreign exchange, Import Selection and Control by its very nature has a further two-fold function in relation to industry. It promotes an expansion of manufacturing industries by prohibiting importations of similar lines and it also enables selection of imports -- more particularly raw materials and capital goods -- in order to foster the growth of the industries where expansion is desirable.

The prohibitions of importations of footwear removed some of the imperfections of the total New Zealand footwear market. By eliminating overseas' competition the scope of the local footwear industry was enlarged to embrace the complete New Zealand market. The benefits thus granted to the Industry were at the expense of the consumer's freedom of choice. As the consumer no longer had the choice of imported footwear it was imperative that the local industry supply the whole gamut that was previously divided by the local and imported goods. The application of the Industrial Efficiency Act 1936 to the Industry offered scope for guaranteeing that the change-over would be made quickly and with the minimum of inconvenience to the consumer.

The Industry, through competition would in the long run achieve some sort of equilibrium, but the wastes of such trial and error competition may be detrimental to the general welfare of the community.

With the knowledge of the total conditions of the Industry the planning authority could quickly make available to the Industry details of the estimated requirements of the public and potential output of the Industry.

To guarantee selection of imports of raw materials and capital goods an Industries Committee was constituted to examine and make recommendations regarding the applications lodged in respect of manufacturing industries in the Dominion and to act generally in this regard in an advisory capacity to the Customs Department. From its wide knowledge of the economic conditions of the Dominion and of the various industries as well it was able to see that the requirements of the expanding industries were met as far as possible. (4)

Later the Footwear Industrial Plan Committee handled all applications for footwear machinery. They endorsed the previous policy, but under this changed system they were able to see that encouragement was given to modernising plant. Their decisions when ratified by the Bureau of Industry virtually decided whether an import license would be issued or not. (5)

The footwear Industry expanded under this stimulus. In 1939 the size of establishments had increased to an average of 45 personnel per factory rising to 53 by March 1940 and output per head rose in the same period from 1069 to 1121.

---

(4) Appendices to the Journal 1939. H44. p.20.

(5) Footwear Industrial Plan Committee's newsletter to the Industry (unpublished) 1947.

The annual report of the Department of Industries and Commerce made mention of the expansion of various factories but stated that a shortage of labour in some instances hampered plans for expansion, but that manufacturers were extremely pleased with the future trading prospects.(6)

This was really the beginning of licensing to restrict entry. By prohibiting imports, control of entry of overseas' firms into the New Zealand market was brought about.

---

(6) Appendices to the Journal 1939. H44. p.37.

CHAPTER IV.

SPECIAL FEATURES OF THE FIELD PRIOR TO LICENSING.

(a) Lack of organisation:

All industries are organised to some extent. By their desire to maximise profits they will seek to so organise the use of their resources to achieve this. In general, to benefit the consumer their activities should produce reasonable quality goods[1] at reasonable prices and in quantities to meet the existing demand.

In the above chapters we have noted the lack of conscious planning. The output of the Industry, by reason of excess capacity brought about mainly by internal competition, has tended to be produced at higher costs than would otherwise be the case.

A Federation of New Zealand Footwear Manufacturers existed with associations in each centre affiliated to this central organisation. The Industry was also represented on the New Zealand Manufacturers' Association. Concerted effort was made from time to time, usually on matters of Import Tariffs. The protection under tariffs made extensions to the market available to the Industry, but it usually led to small and scattered units. Dr. Sutch reports[2] that in 1935 of 32 actual factories surveyed;

---

(1) This is taken to refer to New Zealand conditions. The institutional background and characteristics of the population would tend to support the generalisation that they seek reasonable quality goods. Cases do occur where the welfare of consumers is best met by low quality goods, e.g. Japan's pre-war Asiatic Trade.

(2) 'Recent Economic Changes in New Zealand'. Op.cit. p.125.

5	employed	over	200	operatives	
2	"	from	150	to 200	"
5	"	"	50	to 60	"
8	"	"	20	to 50	"
12	"	under	20		"

This summary shows that 37½% employed less than 20, and 62½% less than 50 operatives. By 1938 there were only nine firms employing over 100 operatives, while the majority, some 57-1/7% employed less than 21 operatives and 75-5/7% less than 50 operatives.(3) This movement away from the medium or larger scale of operations tended to be accompanied by diseconomies and increasing costs and wastage of resources through excess capacity.

On the whole this loose knit association of producers exercised no directive power nor formulated any effective plan to promote industrial efficiency.

The Tariff Commission of 1934 had shown the need for the Industry to reorganise and to increase its efficiency. The Coalition Government had warned industrialists at large that, 'unless they tackled the question for themselves, voluntarily, the Government of the day would be obliged to introduce compulsory measures.'(4)

This may have led to the realisation of the need for some conscious plan, that would be legally effective, that was apparent in some quarters. A section of the New Zealand Manufacturers' Federation desired such a plan and the Federation

---

(3) Figures obtained from the Census & Statistics Department, Wellington.
(4) The New Zealand Financial Times, May 1936. p.337.

submitted to the Government in 1935 a rationalisation of Industries plan. The underlying idea was voluntary co-ordination of all factories in the same class of production. Two-thirds majority vote of output was necessary for the 'schemes' to be binding on the Industry, and once approved by the Industry and by the Government they sought legal enforcement thereof.(5) However, although the Government had drafted empowering legislature the scheme was not proceeded with.

(b) Competition:

This lack of conscious planning in the Industry up to the time of licensing led to trade rivalry and competition. Tariff protection and later Import Control, while enlarging the limited market did not lead to the elimination of inefficient workers, methods, firms or types of production. So long as there was excess capacity in the Industry and a tendency for surplus supply over demand there was internal competition for the limited market.

In one sense of the word, competition can be defined as the ability of a superior process or product to displace an inferior one.(6)

This is but a description of the whole cosmos of society and is one of the principal factors affecting the rate of economic progress.

---

(5) See The New Zealand Financial Times May 1936, p.337 for a detailed description of the plan. In the main it followed the provisions of the later Industrial Efficiency Act 1936.

(6) K.E. BOULDING - Op.cit. p.452.

From this definition, broad as it is, a subdivision into two parts is useful.

(1) Perfect Competition:

Meade[7] states that for competition to be Perfect no single buyer or seller must be able to exercise any appreciable control over any price.

For this to be so the following conditions are necessary:-

(a) There must be a large number of independent buyers and sellers.

(b) The market for the commodity must be perfect in the sense that every buyer must buy from the seller who is offering the lowest price and every seller must sell to the buyer who is offering the highest price. This of course also implies complete mobility of factors and also that there is perfect knowledge of the future.[8]

(2) Imperfect Competition:

By definition, if the above criteria are not co-existent then the forces of competition in that field must be imperfect. For our present analysis it is sufficient to classify competition in these two forms. Professor Chamberlin[9] has shown how competition varies from 'pure' or

---

(7) J.E. MEADE "An introduction to Economic Analysis and Policy" - Second Edition (Oxford) 1946. p.126.
(8) F.H. KNIGHT "Risk Uncertainty & Profit" - Reprint (London) 1946. Professor Knight lays particular stress on Uncertainty causing Imperfections of Markets.
(9) "The Theory of Monopolistic Competition". Op.cit.

perfect competition, through to Monopoly, with intervening mixtures of both shading into each other. We find upon examining the field of footwear production in New Zealand that there exist many imperfections of the Market and of Competition.

(a) The first condition above can be examined in the relations of manufacturers in their capacity as sellers, and retailers (including distributors) as both buyers and sellers, and consumers as buyers.

Firstly: In his relations to the retailers, who are the buyers of his products, the manufacturer had to contend with competition from locally produced as well as imported footwear. He tended to brand or differentiate his products and offer other services in order to fragment the market in his favour. This made the New Zealand market a series of small markets not differentiated entirely by distance and transport costs but by the attachment of buyers through differentiating the product.

Before the Second World War, further imperfections of the market are seen in the attachment of the big manufacturing firms to certain selected clients in the main centres (known as the 'cream of the trade') by selling their products to them at special rates. This gave the large firms a certain continuity of orders. Marshall(10) thought that the demand curve for such a producer's special market would be very

---

(10) Principles, 8th Edition, p.458.

steep. There is no doubt it would be less elastic for at least a short period, but with the differentiation of product remaining it would never become exactly horizontal as it would be under perfect competition. There would always be some connection with substitutes but nevertheless this practice tends to fragment the market and make for a distinct, though not absolutely independent market for the manufacturer as a seller.

Secondly: Retailers tended to order New Zealand made footwear in small quantities at relatively short intervals as required. These seemed to be supplementary to the main orders placed overseas about once every six months when a whole season's supply would be ordered. As would be expected, the retailers tended to "push" these lines, and to use the more readily available New Zealand supply as a standby.(11) This tended to become a standardised procedure over time, and although qualities may have become equal in similar imported and locally produced footwear there appeared to be no attempt, in some quarters, to 'push' New Zealand made footwear.(12) This may have been caused by the apathy of New Zealand manufacturers, but more likely was caused by financial commitments or business interests between the New Zealand importing interests and overseas' producers.

---

(11) 'The Footwear Manufacturing Industry' (unpublished) Op.cit. See also A.E. MANDER "New Zealand Industries and the Tariff", op.cit. p.36. This is a more general statement on this phenomenon.

(12) See Clause (C) of the Conclusions - Appendices to the Journal H44A - 1929. p.10.

Thirdly: Because of the complexity of manufacture very few consumers have complete knowledge of the quality of footwear offered him. Both differentiation of footwear and advertising of both manufacturers and retailers tend to further aggravate the difficulties of his making a rational choice. Lacking perfect knowledge of the market he cannot buy from the seller offering at the lowest price. Furthermore he is likely, in some cases to become attached, from habit or other reasons, to certain retailers and is not likely to change his source of supply following a slight reduction in price elsewhere.

(b) We have spoken of the consumer's inability to always buy from the seller offering his goods at lowest price. This is but one imperfection of the second requirement of a perfect market.

When the large firms attach themselves to selected clients as noted above,(13) (14) they tended to sell any surplus production they had at a discount to wholesalers. They in turn, combed the smaller towns for business or filled urgent orders ex store, selling often at higher prices than were obtained by the factories selling direct. This also gave a big market to the smaller and often the lesser efficient firms. These smaller firms were also a vital source of supply to

---

(13) Supra p.37.

(14) This attachment has been noted also as between imports and the main cities. W.B. SUTCH. Op.cit. p.125.

retailers not on the direct sales list of the more economic firms. They could usually sell at prices between the direct factory prices and the wholesale prices of footwear made by the larger firms. By these imperfections of the market mechanism there existed an hierarchy of prices for identically made shoes as well as for close substitutes.

(c) Further Imperfections of Competition:

Besides the methods of distribution noted above there was the multiple unit that manufactured, wholesaled, and retailed boots and shoes through their own shops. This ensured a given output to the manufacturing unit. However, in so far as they sold to other retailers, price variations would exist for identical footwear. Likewise as they retailed other makes in their retail stores as well as their own manufacturers they would tend to 'push' their own lines and exert influence on the market processes.

Advertising by both manufacturers and retailers was indulged in to quite an extent and 'services' were offered to attract prospective buyers.(15) These all tend to make competition imperfect.

Many other imperfections of competition exist but the above are the more noticeable ones. While this type of competition did exist it was not free to reach its own intensity.

---

(15) In multiple retail stores these 'services', (tea rooms, luggage depots, mailing facilities, etc.) exist for the benefit of customers in all departments. However, in footwear departments and in footwear stores such devices as X-Ray shoe fitting machines are specific 'services' to attract buyers.

Legal restraints, exogenous to such forces set limits above or below which it was not free to go.

The main ones were:-

(1) Labour regulations setting out hours of work, minimum rates of pay and type of workman to be employed.

(2) Factory regulations denoting minimum standards of working conditions for health and safety reasons.

(3) Standards of Quality: These were set out under the Footwear Regulations Act 1913.(16) This did not cover complete quality standards but refer to the need for footwear to have soles of leather. If this was not so, then the footwear must be stamped to show what the substituted components consisted of. Exemptions were made to cover the ordinary filling spaces, shanks, rubber outsoles or in the case of ladies' fancy footwear, the fillings used in heels of wood or celluloid.

It was an offence to sell any footwear that did not comply with these requirements.

(4) General Regulations: Through regulation of profits, business activity and promotion, checks are made on the degree of competition available.

The chief among various enactments are:-

(a) Commercial Trusts Act 1910. This was designed to prevent concessions etc. in consideration of exclusive dealing and also to prevent sales at unreasonably high prices

---

(16) N.Z. Statutes 1913. No.43 - 11th December 1913.

which have been fixed or influenced in any way by a commercial trust. Provision was also made to deal with monopolies which are of such a nature as to be contrary to public interest.

Its benefit lay more as a deterrent rather than an enforceable law by Court action.

(b) The Prevention of Profiteering Act 1936. Its main purpose was to give protection to consumers and purchasers of goods generally, from any form of exploitation in the matter of unjustifiable increases in prices. This was enacted to help ensure that the recent wage increases would benefit the recipients.(17) As the period was still one of excess supply and lagging demand there was no marked wish to increase prices disproportionately. Again its effect was more as a restraining influence.

(c) Board of Trade (Price Investigation) Regulations 1939.(18) Under these regulations it was an offence to increase prices of specified goods (including footwear) after this date unless the Price Investigation Tribunal was notified of such increase, and reasons therefor given.

Labour and factory regulations as well as quality standards put a lower limit to the degree of competition through restrictions on use of factors while the others restrict the amount of profit that can be exacted from the use of these factors in the competitive market.

---

(17) Appendices to the Journals. H44 - 1936. p.26.
(18) Come into force on 2nd June 1939. Amendments and additions were, from time to time made, culminating in the Control of Prices Act 1947. This was the beginning of price regulating in the Footwear Industry. See Part III.

(d) Effects of Competition:

Within these legal and social limits competition was free to find its own intensity. At times it was very acute, and led to haphazard conditions in the industry.(19)

However, we can summarise the effects of competition, freely discussed in the previous chapters, as follows:-

(1) Instability of the Industry.
(2) Wastage of resources.
(3) Low Quality Footwear.

(1) Instability of the Industry:

This is evidenced by the subjoined tables.

(a) TABLE VI.(20)

N.Z. Footwear Manufacturing Industry.
Establishments in Size Groups - According to Workers Employed.

Percentage of Total in each category.

Year:	No. of estab.	Under 6	Under 20	Under 50	Over 50	Total Persons Employed
1929	75	22.6	53.3	81.3	18.7	2,293
1930	71	19.7	57.7	78.9	21.1	2,307
1931	72	50.0	87.5	98.6	1.4	2,364
1932	69	23.2	63.8	79.7	20.3	2,183
1938	70	N.A.	57.1	75.7	24.3	3,081

N.A. denotes information not available.

(19) 'The Footwear Manufacturing Industry'. Op.cit.
(20) 1938 figures obtained from Census & Statistics Department. Other figures compiled from the Factory Production Statistics of the various years.

(b) TABLE VII.[21]

N.Z. Footwear Manufacturing Industry.
Overtime and Short Time Worked.
Showing Total Hours Worked for year
as an Average of all Workers employed in the Industry.

	Overtime. (Ave. hours each)				Short Time. (Ave. hours each)			
	Footwear		All Industries		Footwear		All Industries	
	Male	Female	M.	F.	M.	F.	M.	F.
1929	1.0	1.0	34.0	15.0	68.0	50.0	18.0	11.0
1931	2.0	1.0	25.0	9.0	126.0	98.0	56.0	56.0
1933	4.0	14.0	24.0	24.0	85.0	50.0	69.0	69.0
1935	12.0	17.0	31.0	26.0	63.0	33.0	32.0	24.0
1936	13.0	17.0	35.0	34.0	38.0	22.0	26.0	22.0
1937	8.0	13.0	36.0	30.0	10.0	4.0	15.0	4.0
1938	4.0	8.0	41.0	27.0	62.0	39.0	15.0	9.0
1939	11.0	14.0	45.0	23.0	10.0	5.0	10.0	11.0

Short time is defined as lost time through machine tools etc. being out of order, lack of materials, adverse marketing conditions, cessation of work due to weather conditions and other cognate causes.[22] In the main short time in the footwear industry has been the result of adverse market conditions. This is evidenced in the 1938 figures which show the footwear industry to have a short time problem 400% greater than in the average of other industries. While in the average for all industries there seems to be very little difference

(21) Source:- Factory Production Statistics for the various years indicated.

(22) From the definition thereof in "The Factory Production Statistics" - Government Printer, Wellington.

between male and female 'short time' figures, in the footwear trade there is a marked increase in the average number of hours lost to male workers. They man most of the key machines or departments and with adverse conditions there would not be enough orders to keep them occupied at full capacity. On the other hand their output per head being greater, when orders come to hand at irregular intervals there would tend to be a bottleneck in some departments and thus the female workers would have to work overtime to turn out the orders at short notice.

When short time statistics are coupled with overtime statistics the resultant table shows the instability of the industry from lack of orders, as well as irregularity of and uneconomic size of orders. In the main, irregularity of orders would cause the need of overtime to be worked in the Footwear Industry when economic conditions are such that such a large army of workers is maintained on short time pay. Productive capacity goes to waste, yet competition demands that orders, at times, be executed with alacrity and costs of output are increased by the penal rates of wage payments. This would not denote efficiency and is an adverse effect of competition.

(c) Legislation as noted above[23] sets down minimum requirements as to working conditions, and quality of output. However, by reason of the larger numbers employed, the larger

---

(23) Supra p.46.

factories tend to feel the full weight of these regulations. Smaller factories, the small, family type of concern tend to escape the full weight of 'policing' of these regulations and also where they employ only one or two operatives the regulations are quite often overlooked and the employer, employee relationship is not so marked.

Thus the larger firms were at a disadvantage and sought measures to effect some restriction on entry, or alleviation of the "non-flexibility of present labour conditions."(24)

(2) Wastage of Resources:-

(a) Small Orders. It has been noted that orders were placed in small numbers at infrequent intervals and in various sizes, and ranges, by retailers. Although if the sizes were complementary some economies of material cutting would be achieved, this would be offset by the disproportionate costs of setting up and adjusting the various machines for the varying sizes, styles and processes.

(b) Purchasing of Materials: Fancy leathers, for uppers, are the main raw material, subject to sudden fluctuations in fashion designs. Once the manufacturer has cut these leathers in anticipation of various fashion demands the risk of loss is appreciable. Furthermore as these are imported and the lag in receipt of materials is fairly great, he is forced to carry larger stocks than he would if the goods were

---

(24) Appendices to the Journal H44A - 1929. p.10.

available locally. If the demand changes then he is left with various colours and styles of leather that have little market value.(25)

(c) Bankruptcies: The incidence of bankruptcies and private assignments was greater in the Footwear Manufacturing Industry than in other secondary industries,(26) In the period 1929 to 1938 -- some 39 boot and shoe manufacturers ceased business.(27) While equipment in the nature of plant would tend to be leased again and thus not lost to the industry, wastage, through competitive forces, exists in as much as the organisation of the firm vanishes.

(d) Excess Capacity: Any person with relatively little capital can commence the business of footwear manufacturing as the greater part of the machinery used is leased from a shoe machinery firm.(28) Entry being easy many new entrants commenced business and the ultimate result was an increase in competition for the limited market that existed prior to licensing. The entrepreneur finds that it pays to sell as much as he can at the current market prices. But if all producers do this, prices may fall below costs and over-production of footwear in relation to demand for them at

---

(25) Under the stimulus of expansion in the footwear industry during the 1940's increased calf and sheep skin leather production has been undertaken by the Tanneries. Kid & Suede Kid goat have still to be imported as the skins are not available in N.Z. Also N.Z. is climatically unsuited to manufacture of patent leathers -- Appendices to the Journal H44 - 1945. p.2.

(26) Some food processing industries show a higher mortality rate, but these are more in the nature of semi-primary industries.

economic prices, ensues, followed by losses, unemployment and short time work. Firms will thus be forced to reduce output and operate at less than full capacity. Resources are thus wasted and the lack of a bold plan in the interests of the Industry results in economic loss to the industry.

(3) Low Quality Footwear:

When prices fall through competition entrepreneurs will reduce costs as much as possible to maintain a profit over and above costs. In as much as quality tends to be greater the higher the price of the raw material, the manufacturer will substitute to cheaper and in the main inferior quality materials. Furthermore minimum statutory requirements as to quality of footwear become maximum standards.

(e) Reasons for the Industry Licensing (Footwear Manufacture) Notice 1939.

(1) The effects of competition showed the manufacturers that planning was the only answer to these haphazard conditions. In the rationalisation principles of the Industrial Efficiency Act 1936 could be seen the possibility of obtaining security by productive and marketing efficiency instead of the fluctuating conditions of the past uncontrolled method of activity. This Act gave promise of consolidation

---

(27) From "Miscellaneous Statistics Report" - Government Printer, Wellington, compiled from data for the various years. Approximately 50% of these firms employed labour.

(28) For details of the system of machine leases see Appendix B.

that had not been achieved under Tariff protection; elimination of excess capacity by restrictions on entry and rationalisation thus assuring a market for reasonable quality products.

Further for some time the better class manufacturers had striven to overcome the adversity to New Zealand footwear(29). By licensing of processes and types they saw an augumentation to their endeavours for the necessary skills for particular types and processes would be a prereguisite of authority to manufacture.

Prior to the war the Industry had been subjected to strong competition from overseas. It has been stated that with only a portion of New Zealand's requirements being manufactured locally, the result was that employment was being given to overseas' workers, overseas' raw materials were being used, and our overseas' funds depleted by purchases of footwear that, it was contended, could be manufactured in New Zealand. "The footwear industry was licensed with the object of remedying this unsatisfactory situation and to provide constant and useful employment for the large numbers of people dependent on it for their livelihood"(30).

It would, however, appear that overseas' competition had been eliminated directly by the prohibition of imports. In so far as licensing achieved efficiency within the Industry and a coverage of consumers' requirements then it would be

---

(29) 'Footwear Manufacturing Industry'. Op.cit.
(30) The Plan Committee's Newsletter to the Industry. Op.cit.

giving useful employment to a large body of workers. But it did not directly eliminate overseas' competition. Furthermore, it was not till some nine months after Import Control had been enacted that the Industry was licensed.(31)

(2) Employees in an industry to be licensed also have a say as to whether the industry should be licensed. The Act provides that a majority of units, persons employed and office staff shall be necessary before an application, for the industry to be licensed, is considered. Through licensing the workers would tend to achieve better working conditions and security of employment.

The onus, however, once licensing is obtained, is on the workers to see that such benefits are not obtained at the expense of other groups of the community. In other words they should ensure, as far as possible, that these increased benefits to them are coupled with an ultimate rise in the productivity of their labour.

(3) Ultimately the question as to whether the Industry was brought within the licensing provisions of the Act was entirely at the discretion of the Honourable the Minister of Industries and Commerce. It thus became a matter of Government policy. The general purpose of the Act was "to promote the economic welfare of New Zealand ..... by so regulating the general organisation, development and

---

(31) The advantages and disadvantages of Import Control and international trade do not enter into the scope of this thesis.

operation of industries that a greater measure of industrial efficiency will be secured."(32)

The footwear manufacturing industry provided scope for these ideas and by absorbing increased workers in the Industry it was able to give effect to the Government's policy of Full Employment.

---

(32) From the preamble to the Industrial Efficiency Act 1936.

CHAPTER V.

THEORETICAL POSITION OF THE INDUSTRY PRIOR TO LICENSING AND A STUDY OF THE PROBLEMS OF ENTRY AND PRICE CUTTING.

(a) General:

Up to the advent of licensing the industry was faced with all the aspects of imperfect competition. It arises according to Chamberlin(1) from what he calls the differentiation of the product -- "a general class of product is differentiated if any significant basis exists for distinguishing the goods (or services) of one seller from those of another"(2). The various imperfections noted in the previous chapters are sufficient to put the products of the Footwear Manufacturing Industry(3) within the class of differentiated goods.

Throughout this chapter it is assumed that the producer seeks to maximise his immediate profits. He will thus maximise his profits in the long run also and it will thus become his preferred or equilibrium position. The Industry will be in equilibrium if "there is no tendency for it to expand or contract"(4). That is the marginal firm will be normally profitable.

---

(1) "The Theory of Monopolistic Competition" - Op.cit.
(2) Ibid. p.56. Full details of the various aspects and forms of product differentiation are contained in Ch.IV thereof. pp56-70.
(3) Throughout this chapter I have used the word 'producer' as synonymous with the Footwear Manufacturing Industry.
(4) K.E. BOULDING - Op.cit. p.479.

(b) Equilibrium under Perfect Competition:

Under Perfect competition the price of the product will equal its marginal cost. Since the firm can sell as much as it likes at the given price its average revenue curve is of infinite elasticity. Marginal revenue is the addition to total revenue of selling one more unit and in Perfect Competition it will be constant. Price will thus equal both average revenue and marginal revenue.(5) But as factors are free to move from one occupation to another each commodity will tend to be supplied in such amounts that its price will also equal its average cost of production. Each factor will thus be paid the value of its marginal product.

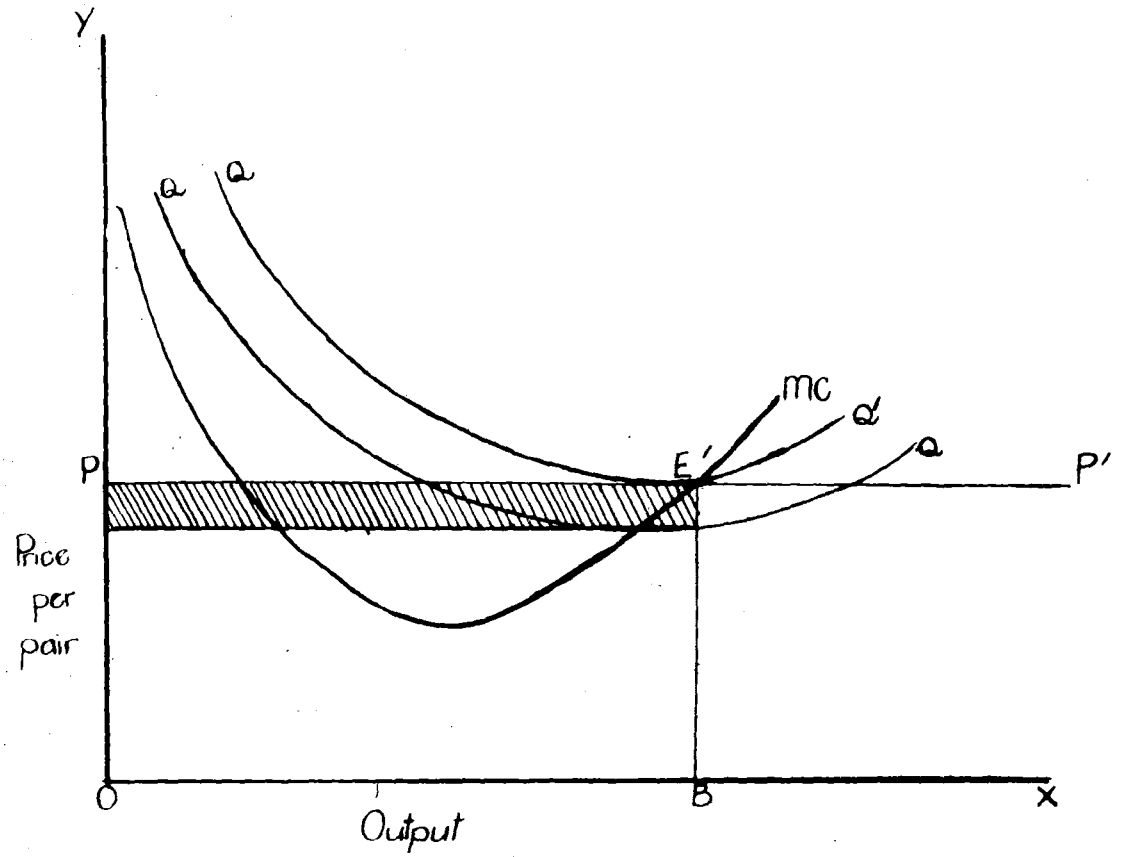
If it were above this average cost (which includes normal profits)(6) new firms would enter. The total output would increase and the price offered by the consumers would fall (i.e., the price to the Industry).

Alternatively costs will rise as new units enter the Industry. This is because the demand for factors increases. If the first producer stayed at his former position he would get an unearned increment so he writes this into his costs by goodwill (i.e., he imputes his costs by taking into account replacement costs). This makes the average cost the same for all units in the Industry.

---

(5) See J.E. MEADE "An Introduction to Economic Analysis and Policy" - Op.cit. PP.95-118.

(6) Normal Profits is the minimum profit necessary to secure the entrepreneurs services. E.H. CHAMBERLIN - Op.cit. p.77. See Appendix C for a discussion on Normal Profits.



ENTRY OF NEW FIRMS UNDER PERFECT COMPETITION

Let

QQ be average cost curve prior to entry of new units (incl. all profits)

MC be the marginal cost curve.

QQ' be the new average cost curve after entry (incl. normal profits.)

PP' be the average revenue curve.

Then E' is the equilibrium position when maximum profits are being made. Shaded area is profit above Normal Profits before entry.

FIG. 1

However, the tendency could well be for both to react together.

Graphically the equilibrium can be shown as in Figure 1. The tangency point E^1 is at minimum average cost and all are making but normal profits. If profit falls below normal, average cost lies above the average revenue curve (pp^1) and then producers and factors of production will tend to move elsewhere. Then prices will rise as supply from the whole Industry to the consumer falls and/or costs will fall until normal profits are again made.

Here we see the producer can sell as much as he pleases at the going price as he is completely merged in the general market.(7)

(c) Imperfect Competition Equilibrium:

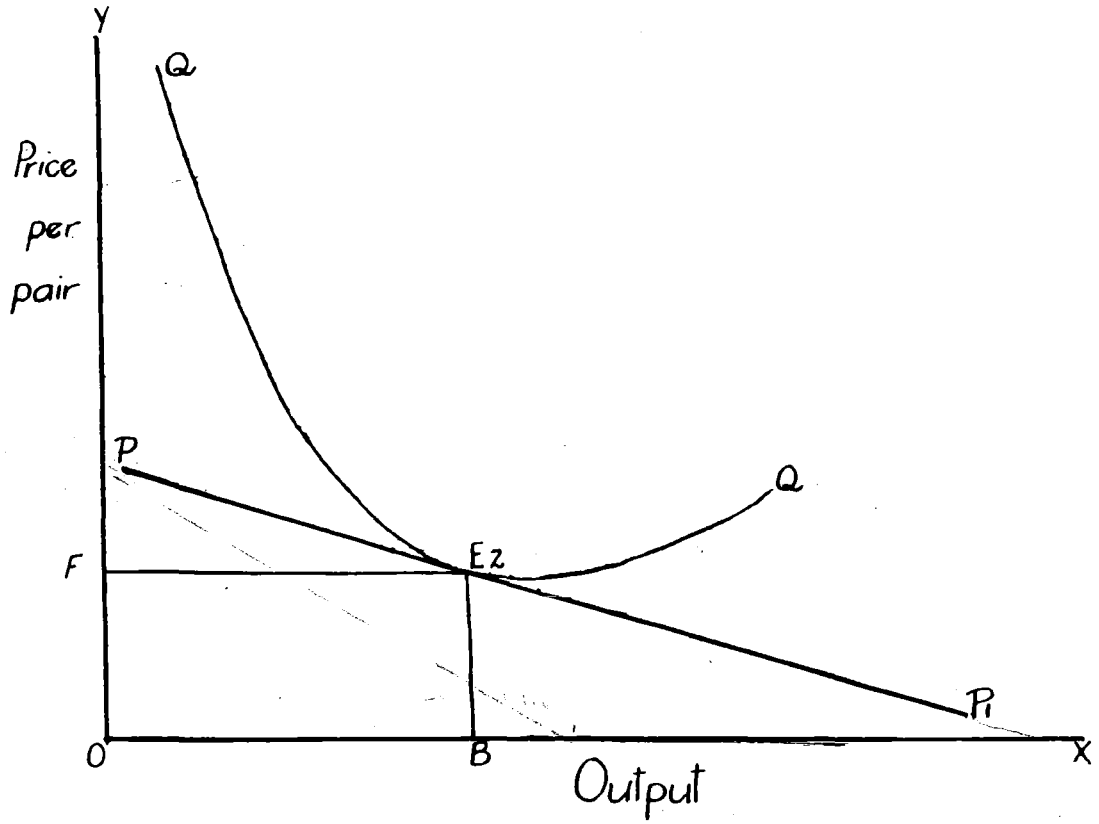
It is a condition of Imperfect Competition that the divergence of the Demand curve from the horizontal of figure one imposes upon the seller a price problem absent from perfect competition. Thus as he sells more, price will tend to fall and as he restricts output, price will tend to rise.

In order to maximise his profits he will produce and sell more "so long as what he adds to his costs by producing an extra unit ..... is less than what he adds to his receipts by selling an extra unit".(8)

Under Perfect Competition he produces so long as marginal cost is less than price, i.e., until it equals price.

---

(7) Ibid. p.70.
(8) J.E. MEADE - Op.cit. p.133.



EQUILIBRIUM DIAGRAM :- Single Producer in Imperfect Competition

Let -

QQ be the average cost curve (incl. attainable profits.)

PP1 be the average revenue curve.

Then E2 is the equilibrium position.

(Note :- The demand curve for the Industry is rigidly defined by the fixity of all "products" and "all other prices.")

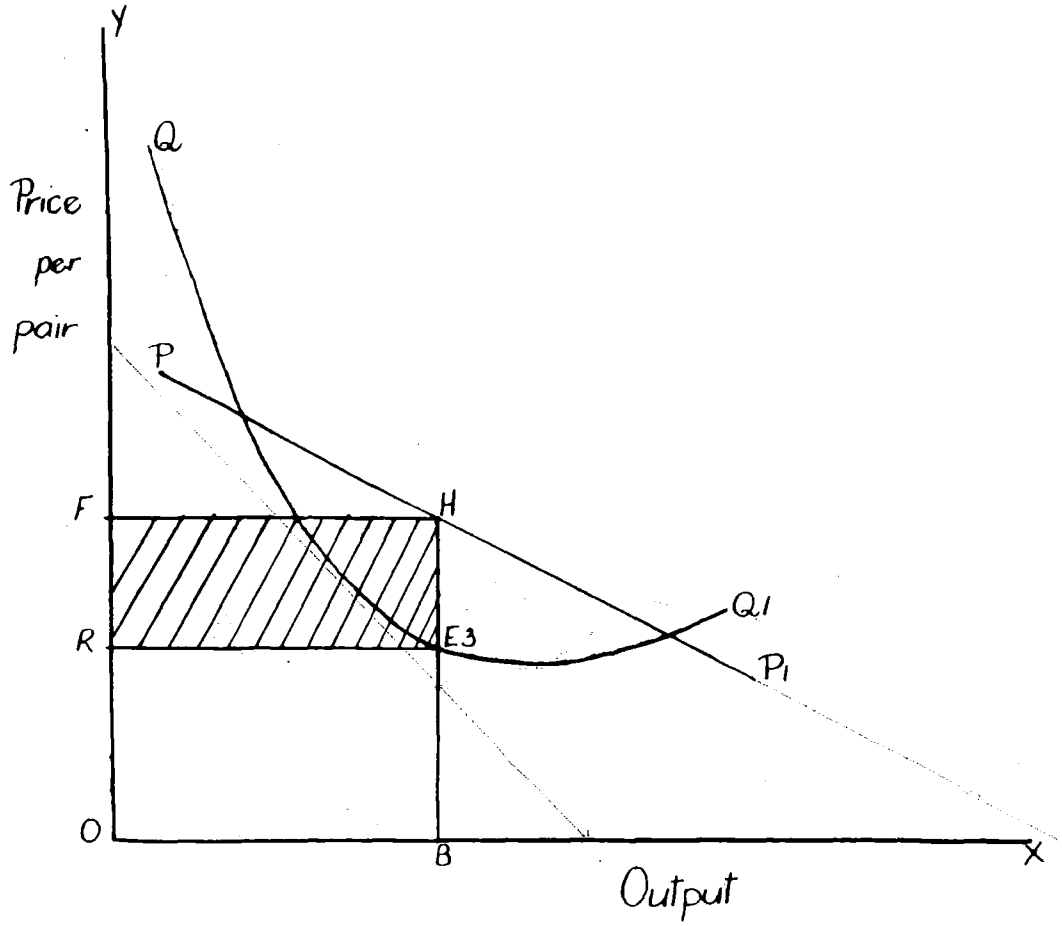
FIG. 2

This will be also where Marginal Revenue equals Marginal cost. In Imperfect competition he will also produce up to where Marginal Revenue equals Marginal cost but as Marginal Revenue is always less than price he will stop producing at some point before the price of his product has fallen to the level of Marginal cost. Here he will be working at a most profitable level.

In figure two this position is shown. It includes all attainable profits, but if factors of production in equally Imperfect competition possess perfect mobility, they will move till their rewards relative to their marginal product in each occupation are in equal proportions.

Thus this position, although an ideal position for the single firm is an unstable equilibrium for the Industry. Of course any move away from this ideal position would reduce the profits of the producer below his maximum attainable profits.

However, if we but include Normal Profits in the average cost curve of the single producer (QQ1 in fig.3) equilibrium is again where maximum profits are being made (this is supposing, once again, that the conditions of demand and of costs are given). His total profits are maximum with output O.B. as here the excess of average revenue over average cost (i.e., HE3) is greatest. Multiply this excess by output O.B. and this gives the area of profits (RFHE3). However, since the cost curve QQ1 includes normal profits it follows that the shaded area represents extra profits.



EQUILIBRIUM DIAGRAM :- Single Producer in Imperfect Competition.

Let

QQ1 be the average cost curve (incl. Normal Profits only.)

PP1 be the average revenue curve.

Then

E3 is equilibrium position when maximum profits are made. (Shaded area represents area of profits above normal.)

FIG. 3.

This shows that following from the less than horizontal demand curve of Imperfect competition the effects of this type of Imperfect competition are to render the single producers price higher and his scale of production smaller than under Perfect competition.(9)

It has been assumed that each producer was faced with the same cost curve and was likewise faced with the same demand curve, thus each producer was making the same profits and the position E3 on fig.3 would thus be a stable equilibrium for the Industry of this particular number of producers.

(d) Effects of Entry:

But if entry was not restricted this position represents an attraction to other entrepreneurs and the greater the shaded area the greater the attraction. Import Control made it possible for this shaded area to be enlarged and thus new factors and producers were attracted to the Industry and the equilibrium E3 was not tenable.(10)

The entry of new producers can have one or both of two effects:-

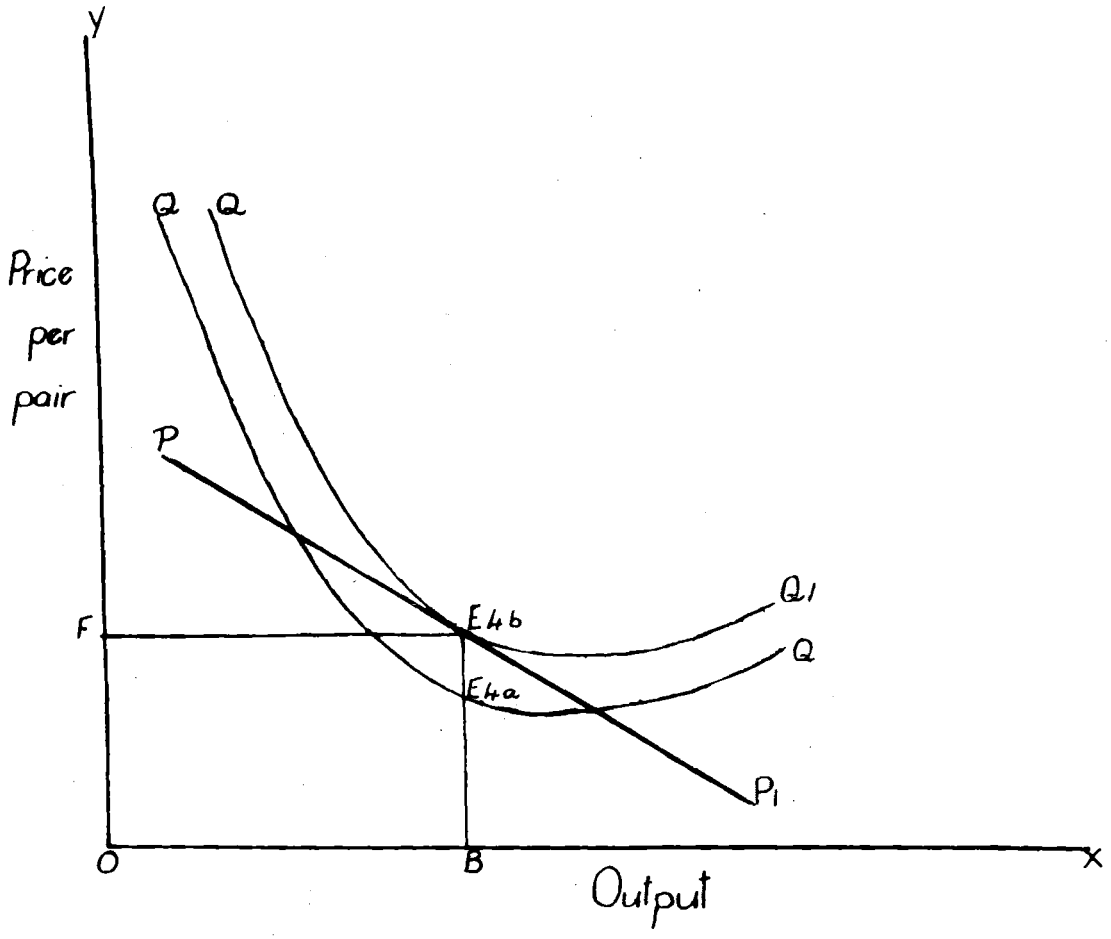
(1) Effect of the Cost Curve Situation:

Quite possibly the entry of new firms by enlarging the number of units in the Industry will make it possible for

---

(9) E.H. CHAMBERLIN - Op.cit. p.77. Here we are dealing with the field of Atomistic Imperfect Competition.

(10) A further alternative can be formulated. If price is held constant, there is a possibility that product can be varied or adjusted. However, it has been assumed that figs.2 and 3 have been drawn with reference to the optimum 'product'. Thus it is evident that the price of OR (i.e. PP1) could not be improved upon. See Ibid. pp.80-81.



EQUILIBRIUM DIAGRAM :- Effects of Entry of New Producers — Changes in the Cost Curve Situation.

Let

QQ be the original cost curve (incl. Normal Profits.)

QQ1 be the new average cost curve after entry (incl. Normal Profits)

PP1 be the demand situation (given) or average revenue curve.

Then E4a is the original equilibrium when abnormal profits are made. E4b is the new equilibrium. Here all producers are making normal profits only.

FIG. 4.

external economies to arise, thus making for specialised services that are available for all producers.(11) This makes for lower average cost curves for all units. This would tend to enlarge the area of excess profits and cause a greater incentive to new entrants to enter the field.

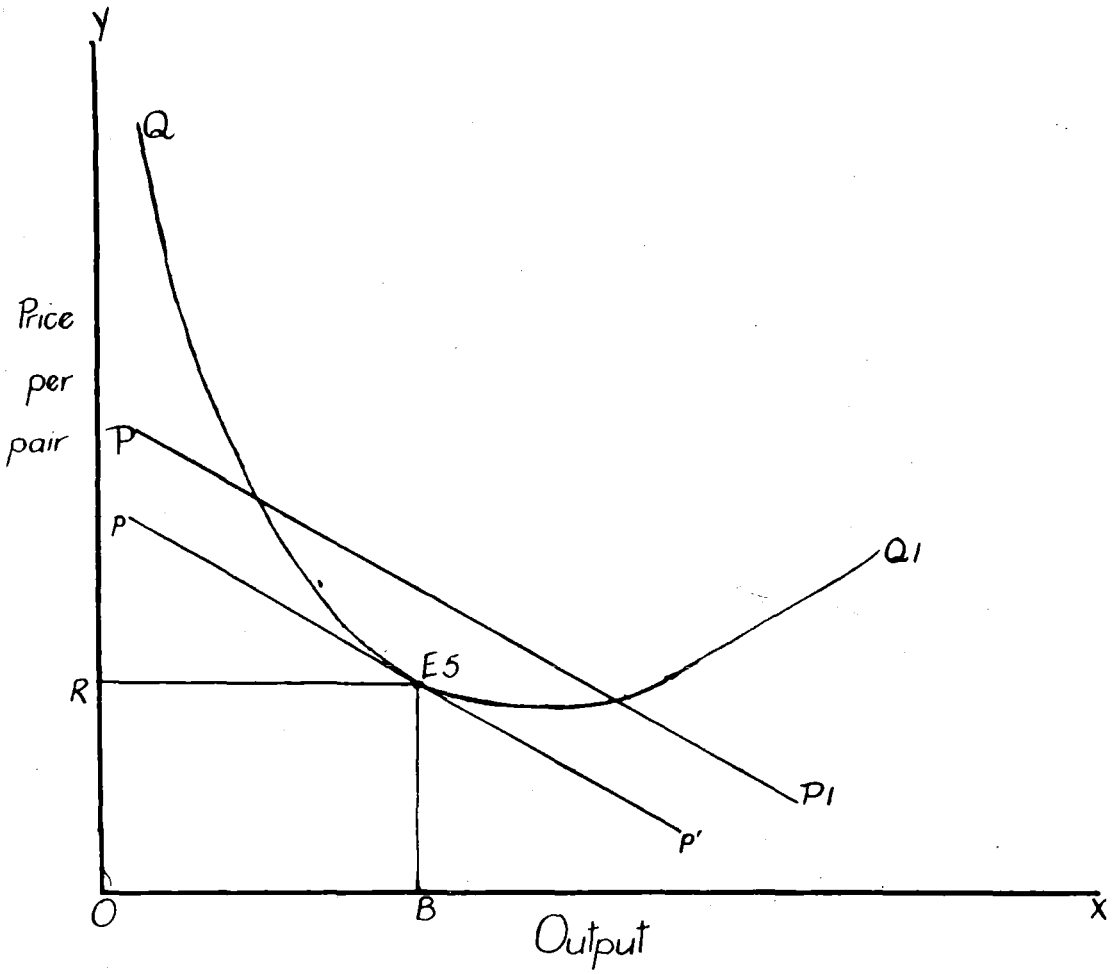
However, after a while, through unrestricted entry costs will rise because of the increased demand for the factors necessary to the firms. Producers already in the field will take into account the now higher replacement costs and impute these into their cost structures.

As the cost curve has risen through increased competition for scarce factors there will be a tendency for prices and output to remain the same for each producer and abnormal profits will thus disappear. The older firms do this by imputation of costs.

Fig.4 shows this position. E4a was the equilibrium position before entry of new firms and it included abnormal profits. Not being a tenable position when there is unrestricted entry new firms will raise the average cost curve and thus E4b becomes the new and stable equilibrium and will include only normal profits.

---

(11) In the Footwear Industry the smaller firms tend to make use of such specialised services as accountants. However, a most notable feature of external economies available to all the Industry is the disintegration of the heel making Industry in New Zealand from the Footwear firm, into a separate industry, under large scale production, thus making economies of scale available to all units in the Industry.



EQUILIBRIUM DIAGRAM :– Effects of Entry of New Producers — Changes in the Demand Situation.

Let

QQ1 be the average cost curve (incl. Normal Profits)

PP1 be the original average revenue curve.

pp' be the new average revenue curve after entry of new producers.

Then

E5 is the new stable equilibrium.

FIG. 5.

(2) Effect on the Demand Situation:

The excess profit being made will attract new competitors into the field with a resulting shift in the demand curve. It is assumed that as each new firm enters it has the same costs, and so merely the number of firms is altered and there is a greater output from the whole Industry. While the conditions of demand remain the same, the total output can only be sold by a reduction in price. There is a new average revenue curve as each new producer enters and each firm can sell the same but at a lower price. This will continue until the average cost curve forms a tangent with the new average revenue curve at the new equilibrium position of E5 in fig.5.

At this position no abnormal profits are being made and it thus becomes a stable position. However, in the short run it is highly probable that the pressure of new producers entering the industry in anticipation of high profits will cause the average revenue curve facing each producer to fall at some point below the average cost curve. Losses will thus ensue and the realisation thereof will cause an exodus of firms until normal profits are being made through the average revenue curve for each producer rising because of reduced total output, until it once again is tangential to the average cost curve.

In actual practice the entry of new producers will, under the original conditions have effects on both demand and cost curves simultaneously.(12) Such a two-fold condition

---

(12) E.H. CHAMBERLIN - Op.cit. p.84.

will not affect the analysis but only hasten the ultimate stable equilibrium position.

(e) Effects of Price Cutting:

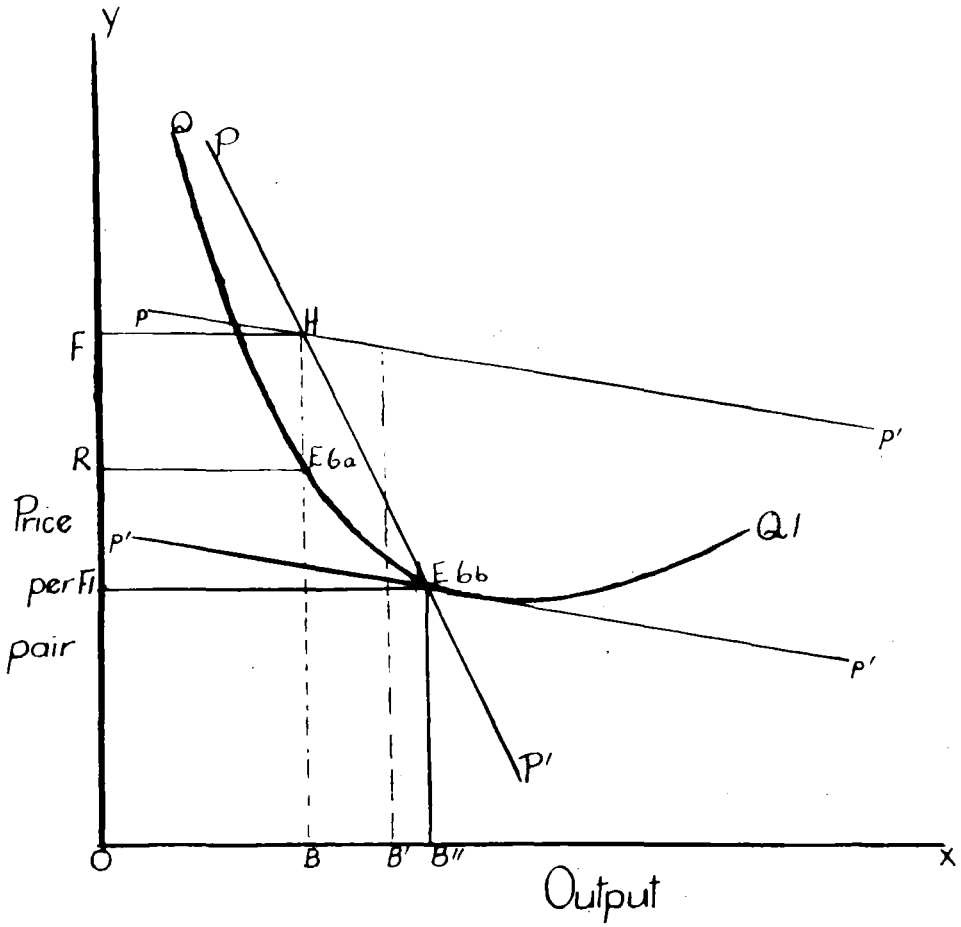
However, there is another way of looking at this problem. To survey this problem it is assumed that the number of producers is constant with the stable equilibrium outlined above and thus there is no entry problem. However, when profits above normal are being made, there will be a tendency to cut prices until tangency of the average cost curve and average revenue curve is achieved even without entry of new producers.

The pp1 curve in Figure 6 shows the increases in sales that a single producer can get by cutting his price, only if others don't follow suit, i.e., cut their prices as well. In this case the demand for his product would be of almost infinite elasticity -- it could never be infinite elasticity because of the Imperfect competition structure of the Industry. Products always have some degree of insulation by virtue of product differentiation.

It has been noted that the equilibrium under Imperfect competition is one of higher price and smaller scale of production than in Perfect competition.(13) Thus the producer has excess capacity. If he can lower his price and not be followed by other producers doing the same he will not only reap larger sales but his average cost would be smaller and his profits greater.

---

(13) Supra p. 61.



EQUILIBRIUM DIAGRAM :- Effect of Price Cutting in the Industry

Let

QQ1 be the average cost curve (incl normal profits.)

PP' be the original average revenue curve.

pp' be the more elastic demand curve of a single producer (if no other firm indulges in price cutting.)

p'p' be the more elastic demand curve after all units price cut.

Then E6a is the original equilibrium

E6b the equilibrium if all firms price cut.

FIG. 6.

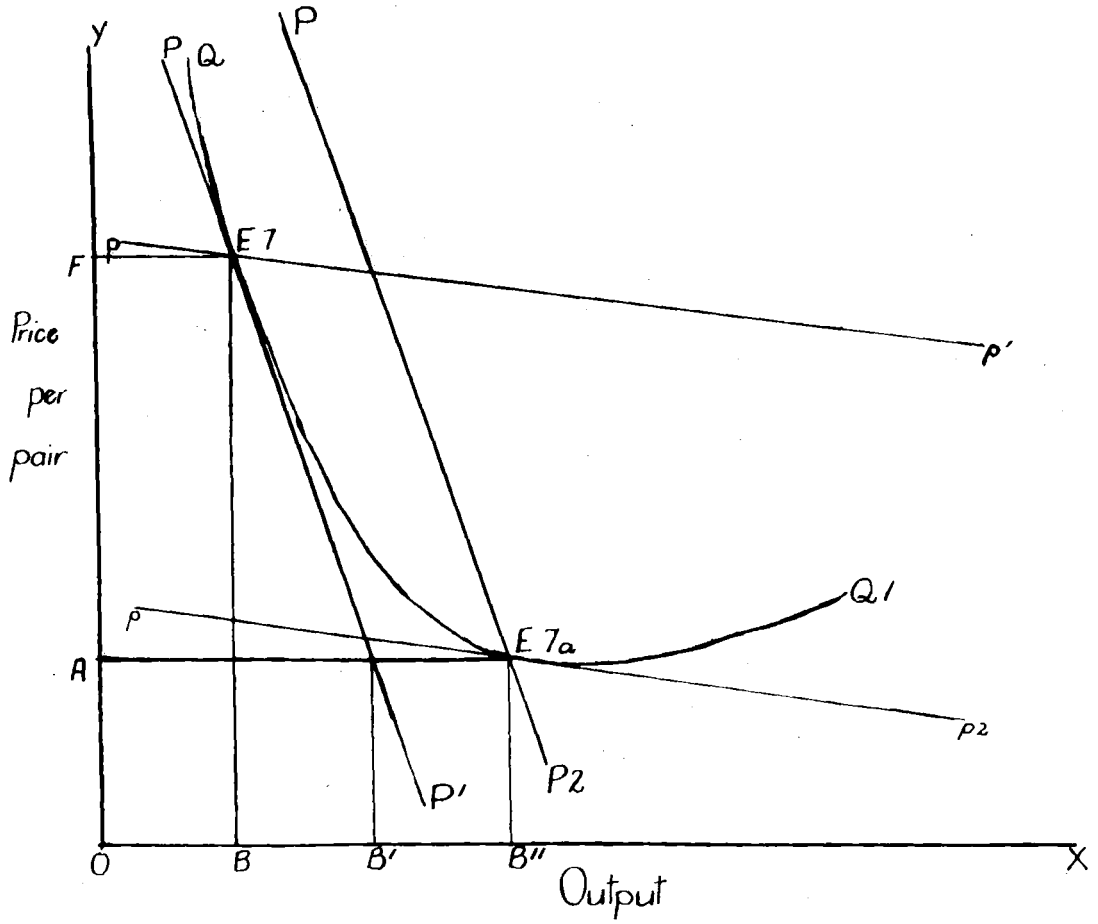
In figure 6 the original output was OB but for the single producer cutting his price his output is OB1 at a smaller average cost per unit.

But normally if one producer cuts his price others would follow and for the same reasons. Also each producer may do the same as the first producer hoping that no others will follow suit. As each lowered its prices they would sell more but their sales relative to each would be very inelastic (i.e., they would remain the same). They would thus move down the demand curve PP1 and as they move they will reduce their profits. But as they go down a single producer will try to price cut again and thus hope to increase his sales. As price cutting increases firms would take up lower and lower positions on PP1 until finally equilibrium at E6b will be reached and output will be OB^{11}. Here normal profits only are being made.

In the short run prices may fall below this level, if some producers have reserves to cover the loss, by reason of average revenue being less than average cost. This would tend to force weaker competitors out of business and when this is effected prices will again be raised and monopoly of profits could result if price rose above equilibrium.

(f) Price Cutting and Entry Combined:

It is of course possible and highly probable that both price cutting and entry will take place at the same time. It is again assumed that high profits are being made. Thus



EQUILIBRIUM DIAGRAM :- Effect of Entry and Price Cutting Combined on the Footwear Industry.

Let

QQ1 be the average cost curve (incl. Normal Profits)

PP' be the average revenue curve after entry of new producers.

Then E7 is the first equilibrium position (an unstable one)

Let pp1 be a more elastic average revenue curve of one firm cutting price without others following.

After process described above the ultimate stable equilibrium is E7a.

FIG. 7

the Industry will be attractive to additional producers. They will enter the field and will continue to do so until the original average revenue curve (PP1) has moved to the left and is tangential to the average cost curve (QQ1 in fig.7). Here the output is OB and the price is BE7, and all firms are making but normal profits. The high price is a reflection of the high costs of such small and uneconomic scale of production. Each producer will be faced with a large excess capacity and will thus be tempted to reduce prices by the possibility of increased profits. If others did not follow suit he would indeed obtain some such increase in profits as his average costs fall as output increases. The more elastic demand curve pp1 drawn through E7 is the demand curve he visualises.

But as each and then all do the same they will move down the average revenue curve PP1 and again prices will be cut and the movement downwards will ultimately involve them all in increasing losses. If one producer could push his demand curve pp1 down to tangency with the average cost at E7a then he would be earning normal profits and thus avoid losses. But this is not final equilibrium, as the numbers of producers are so great that all of them will cut their prices to achieve the equilibrium at E7a. As they must endeavour to do this to make at least normal profits their sales will only be OB^1 and not OB^{11}. Thus their losses are larger than ever and the only relief from the situation will be obtained by some firms

transferring to alternative occupations. The share of total demand will thus increase to the remaining firms and the average revenue curve will move to the right and when it cuts through E7a all will be making normal profits and output will be OB^{11} (see PP2 in fig.7). Of course in the short run prices may fall below this level but as all are making losses some units will tend to leave the field and the price will return to equilibrium at E7a in fig.7.

(g) Conclusions:

It must be remembered that the above approach is but a simplified "group" device for purposes of exposition.

The assumption of similar cost curves and average revenue curves for all products is not according to reality. They do differ widely but as Chamberlin(14) points out they are illustrative of the group, but it should be realised that "on account of diversity, both as to location and as to shape, a corresponding diversity of prices, costs, and outputs (but not, so far, of profits) obtains throughout."

Trade marks, however, enter to some extent in the footwear trade. These may fragment the market to their particular field. But competition, to the degree that it does exist will push the demand curve to the left (as noted above) but will do so in uneven degree, depending on effective substitutes being produced or because of established consumers preferences being strong. Some elements of monopoly profits

---

(14) Op.cit. p.111. Brackets in the original.

may thus tend to exist.(15)

However, the above theoretical approach suffices to show that in general the field of footwear manufacturing is one of atomistic imperfect competition.(16) Here normal profits tend to rise as in perfect competition.

But in perfect competition prices correspond to the cost of production under the most efficient conditions.(17) Here average cost will be at a minimum and average revenue will be tangential to average cost as this minimum. However, monopoly elements alter this average revenue curve for the producer and thus in the field of footwear production he is faced with an average revenue curve that is falling as more units are sold. In seeking to maximise profits he will raise price above the minimum and so restrict output or will restrict output to raise price. In either case the equilibrium will be at higher than the competitive price under Perfect competition. It also means the possibility of less than optimum output, and thus exists excess capacity for which, under conditions outlined above, there appears to be no automatic corrective.(18)

---

(15) The larger firms used trade marks to a great extent. However, substitutes are manufactured, perhaps though, not always effective ones. Also established consumer preferences may be strong enough to give a degree of such profits, but from observation and opinions of the Industry this tendency would not be great enough to over-ride the general equilibrium assumption. On the whole the various makes of footwear are good enough substitutes for each other to make monopolistic competition the rule.

(16) Atomistic Imperfect Competition is the field of differentiated products where exist large numbers of producers relative to the market usually producing on a small scale.

(17) J.E. MEADE. Op.cit. Ch.II, Part II, p.111 et.sqq.

(18) This assumes there are possibilities of larger production already existing in some factories.

As will be seen in the next Section artificial restrictions on entry seek to solve this problem by external means and specialisation and other means seek to solve it by means internal to the firm.

PART THREE

THE ECONOMIC IMPLICATIONS

OF THE INDUSTRIAL EFFICIENCY ACT 1936.

CHAPTER VI.

THE LICENSING OF THE FOOTWEAR MANUFACTURING INDUSTRY UNDER THE INDUSTRIAL EFFICIENCY ACT(1)

(a) Introduction:

The footwear manufacturing industry was licensed on the fifth of September 1939.(2) From this date "the said industry shall be carried on only pursuant to a license issued under Part III of the Industrial Efficiency Act 1936 and in conformity with the terms and conditions of such license."(3)

This alteration in the principle of operation of the Industry was designed to bring economic planning into the Industry and to make provisions for the development thereof on an orderly and constructive basis.

The general purpose of the Act is described in the long title as "to promote the economic welfare of New Zealand by providing for the promotion of new industries in the most economic form and by so regulating the general organisation, development, and operation of industries that a greater measure of industrial efficiency will be secured."(4)

---

(1) For a full description of the content of this Act see "Post-War Industrial Planning in New Zealand". H.L. WISE, Wellington, 1944. 48pp. The activities of the Bureau of Industry are covered in the yearly reports of the Industries and Commerce Department - Appendices to the Journal H44 series.

(2) By virtue of the Industry Licensing (Footwear Manufacture) Notice 1939. Serial No.1939/150.

(3) Ibid. Clause 4.

(4) From the preamble to the Act. N.Z. Statutes, 1936.

This meant altering to some extent the competitive forces that existed in the industry prior to the invocation of the licensing powers. The technical considerations of production were the same.(5) But by various means, such as research associations facilities were offered to all units to improve their techniques and the use of most modern machinery was facilitated.

Changes in the sources of supply occurred, as the local closely related industries expanded under stimulus of the increased demand from the footwear industry partly because of the enlarged scope of the market now available to the New Zealand Industry and partly because competitive raw materials were now not available following Import Control.

Competitive price adjustment was also controlled by means of price control. These changed factors of operation of the Industry will be discussed later in this part.

Under these planning operations security, with normal profits, in the long run became the theme as opposed to the more fluctuating profits of the short run. The Annual Report of the Industries and Commerce Department referring to the work of the Bureau of Industry sums up this ideal as aiming at securing benefits in the long run rather than in the immediate future.(6)

Security implies welfare and by their application to come within the provisions of the Industrial Efficiency Act the manufacturers of footwear in effect realised that the

---

(5) See Appendix A.
(6) Appendices to the Journal H44 - 1937. p.25.

protection afforded by licensing provisions of the Act made it necessary for them to take every possible step to see that the public was adequately served in quality, price and range of footwear.

(b) Method of Licensing:

Under the main Act the Bureau of Industry was set up. This consisted of 10 ordinary or State members and 4 special members, two of which were nominated by manufacturing and two by farming interests. This Bureau carried out the functions of the Act and became the industrial licensing authority.(7)

The Minister of Industries and Commerce could, at any time require that any industry be carried on pursuant to a license issued by the Bureau and he was also the appeal authority against the decisions of the Bureau on licensing.(8)

In the provisions for making an application for a license it stated that a majority of units, and employees in favour of licensing, was necessary before the application for the invocation of the licensing provisions of the Act was considered. A full examination was made of the Industry before it was licensed. The Bureau must be convinced that "licensing would be in the best interests of the industry itself and the consuming public in general".(9)

---

(7) Appendices to the Journal H44 - 1937. p.24.
(8) Later on an independent appeal authority was set up - H44 - 1937. p.25.
(9) H44 - 1937. p.26.

(c) The Effects of Licensing:

The first phase of this planning of the Footwear Manufacturing Industry was the licensing thereof. As is shown in the previous chapter when entry is unrestricted the ultimate stable equilibrium is a position of normal profits as in figures 4 or 5 at E4 or E5 respectively. This is arrived at generally by increased costs and falling prices. Its path to the stable equilibrium may be prolonged by rigidities and imperfections of the market processes.

For instance if the demand curve for the product varies this stable equilibrium will be upset. Bouts of over and under-expansion may also arise as small entrepreneurs are seized with capital over enthusiasm.

In these periods the uneconomic structure of the Industry is portrayed by less than normal profits. This would mean that in figure 2 the demand curve PP1 throughout its whole length would be below the average cost curve QQ1. If we return to our original and simplifying assumption that each producer is faced with the same cost and demand curves then all units will be making less than normal profits. This is an unstable position and stability will only return when some units leave the industry and normal profits are again made.

Licensing of footwear sought to remove this uneconomic competition. It should thus so control entry into the Industry that the cost curve (QQ1) of the firm forms a tangent

to the demand curve PP1. At this point all producers would be making normal profits and the Industry would be in a stable position. At this point all producers who have the opportunity to change their position would thus have no incentive, and those who have the incentive would have no opportunity.

This brings us to the point of price cutting. Normal profits are made at the equilibrium E7 on figure 7. But by reason of excess capacity firms have the incentive to cut prices in order to reap additional profits. This process would carry on till the equilibrium position of E7a in figure 7 is reached. In the process the number of firms has also been reduced. Thus entry must be so controlled that excess capacity is not so great as in figure 7 at E7. The position E7a should be the equilibrium aimed at by the control of entry.

At this point, which is theoretically the stable equilibrium, there is the possibility that the producers, with large enough reserves, will be able to push out along the more elastic demand curve (pp1 in fig.7) by lowering the price even though it means losses to them. This will eliminate their weaker opponents (in the sense of lack of reserves)(10) and leave abnormal profits to the remaining firms.

---

(10) This is not necessarily the most efficient firm. Conservative policy may have meant the amassing of reserves instead of purchasing new plant etc. A modernly equipped firm may have had no time to consolidate. See E.A.G. ROBINSON - "The Structure of Competitive Industry" - Op.cit. p.95 et.seq. Also the technically inefficient units may be producing inferior articles, yet be economically more able to survive. Here competitive wastes are socially undesirable and the technical and economic efficiency aspects do not coincide. K.E. BOULDING - Op.cit. p.494 et.seq.

It thus becomes imperative that some form of price control is necessary to offset the wastages of this monopolistic competition. Entry restrictions alone then, do not solve the whole problem of the socially disadvantageous effects of this type of competition. The rationalisation powers discussed below also aimed at correcting or arresting these forces.

CHAPTER VII.

FURTHER PLANNING FEATURES OF THE INDUSTRIAL EFFICIENCY ACT.

(a) Scope of the Scheme:

In addition to endeavouring to obtain greater efficiency in the Footwear Manufacturing Industry through licensing of units, consideration was given by the Bureau of Industry to the formulation of a plan for the reorganisation and the rehabilitation of the Industry.

Firstly the Industry, now licensed, had to agree as to the formulation of a suitable plan. Once agreed upon it was submitted through the Bureau of Industry to the Minister of Industries and Commerce for approval. After approval it was to be administered by an Industrial Committee appointed by the Minister from persons nominated to him, by the various interested parties.

The Industrial Efficiency (Footwear) Regulations 1941 set out the composition of this committee. It was to consist of 9 members, of whom 5 were to be representatives of the licensees, 2 of the workers engaged in the Industry and 2 Government nominees. Later, in 1948, the composition of this committee was altered to reduce the Government nominees to one and to increase the workers' nominees to three.(1)

---

(1) Statutory Regulations 1948. Serial Number 1948/33 entitled "The Industrial Efficiency (Footwear) Regulations 1948"

Their powers to administer this plan were obtained from the Licensed Industries General Regulations 1940.(2) Briefly these regulations governed their deliberations on the plan, the conditions that may attach to any license, the procedure to be followed in making applications for licenses, the lodgment of appeals, and the payment of annual fees and levies.

However, the scope of the plan was within the Industrial Efficiency Act requirements. In general it sought to expand and co-ordinate the Industry by(3)

(1) Regulating entry of new units in accordance with economic considerations and services required to the consumer.

(2) Fostering amalgamations and rationalisation where redundancy in the numbers of units existed.

(3) Maintaining more efficient means of manufacture and also of distribution.

(4) Increasing the quality of the products.

(b) <u>The Implementation of the Footwear Plan</u>.

The Industrial Committee sought to implement this plan along various lines. It is proposed to discuss same under the broad headings of (1) and (2) above.

(1) Regulation of entry: The committee investigated all applications for licenses. In particular they

---

(2) Statutory Regulations 1940. Serial Number 1940/279, p.969.
(3) See 'Appendices to the Journals' H44 series 1936 et.sqq.

investigated license applications as follows:-[4]

(a) For all new licenses to commence business.

(b) For extensions of existing licenses as regards

(1) types and processes

(2) types only

(3) processes only

(4) size range only

(c) For variations of conditions of existing licenses.

(d) For transfer of ownership of licenses, including change of name and incorporation into companies.

(e) For additions to Capital.

(f) For transfers of factories, including the erection of new factory premises and opening of new units at other addresses.

(g) For permission to open machine rooms or part process factories.

(h) For additions to existing floor space in factories.

(i) For permission to install additional plant.

(j) For cancellation of existing licenses or portions of licenses.

After investigation thereof it made recommendations to the Bureau who were the actual licensing authority. However,

---

(4). Adapted from the Footwear Plan Industrial Committee's Newsletter to the Industry.

it is recorded that on almost every occasion the Bureau confirmed the Committee's recommendations.(5)

The effects of the restrictions on entry of new competitors has been discussed above.(6) The necessity to control the licensing of the various activities within the firm pertaining to expansion of the unit of production is more particularly described below. One form of licensing is complementary to the other and both are needed to bring stability to the Industry.

(2) Fostering amalgamations and rationalisation. By rationalisation is meant "action taken by the State or by the majority of producers in a particular industry to bring that industry under a single control."(7) In the Footwear Manufacturing Industry this meant a "development along organised lines of self government"(8) subject of course to the scope of the plan as voluntarily accepted by the Industry and also subject to the aim and tenor of the Industrial Efficiency Act.(9)

Firstly the Committee had to ascertain the requirements of various types of footwear needed to meet all consumer requirements. Import and production figures over a number of years were studied and stocks and sales trends in distribution channels in their relation to population statistics were

---

(5) Ibid.
(6) Chapter VI.
(7) J.E. MEADE, Op.cit. p.174.
(8) Appendices to the Journal H44, 1941. p.11.
(9) H44 - 1940. p.17.

examined, to assess the average usage of footwear in New Zealand. From the resultant figures an estimate of the country's requirements -- 'from swing back toeless creations of plastic to thigh gumboots' -- was made and population planned accordingly.

In order to implement this plan efficiently it was necessary to subject the Industry to some degree of Specialisation. It was realised that the insufficiency of population would not warrant specialisation on the same lines as adopted in America or to a lesser extent in England. True specialisation in the Footwear Industry would mean specialisation in one type of shoe by one process, but the turnover necessary to reap the economies of the resultant large scale production is far higher than is warranted by the extent of the New Zealand market.(10) Thus in New Zealand, it is customary to make at least two types of shoes in order to operate without any undue waste of material.

To improve quality and to stabilise the Industry some degree of specialisation was absolutely desirable. In 1947 it was estimated that to give effect fully to the planned production programme the various plants would be utilised to the following extent:

---

(10) This is the opinion, expressed in an interview by an ex officer of the Plan Committee, who is also an executive officer of the N.Z. Footwear Manufacturers' Federation.

Heavy plants	85%
Veldtschoen plants	75.5%
Welted plants	82.5%
Machine sewn, fair stitched & cemented plants	94.5%

"The effect of the plan will be to considerably reduce types and processes in individual units without reducing the production of such types and processes collectively."(11)

To ensure the effectiveness of this plan the Committee had to be sure, that when considering new licenses no section of the Industry would become overproduced. This was guarded against by extensive investigation of all applications for extensions to licenses to cover types and processes, additions to plant and to capital, buildings etc. A plant register was also kept by the footwear technical officer in order to keep posted of the potential output of the Industry. Not only were new applications of extensions of licenses exhaustively checked, but a continuous survey of existing licenses was maintained in order to eliminate any license that had become redundant through non use, lack of plant materials or labour.(12)

In general it would appear that so far as processes are concerned licenses are only issued for specific combinations where more than one process is applied for by the firm. For instance a license would not be granted for the manufac-

---

(11) Footwear Plan Industrial Committee's Newsletter to the Industry.

(12) Ibid.

ture of both hard and soft sole slippers as these are entirely different processes and require more or less special knowledge. In many shoes Veldtschoen process should be a separate unit, but fairstitched, machine sewn rivetted and screwed processes could be worked in conjunction with each other. Although preferable to have welts as an only process it could possibly be worked in with the others. As far as women's shoes are concerned cemented process is usually adopted. There appears to be a big demand for cemented footwear and a fairly large seasonal demand for women's shoes made by the Veldtschoen and welted processes.(13) Here again groupings, as for men's would be desirable. It would thus appear that there is a larger scope for specialisation in women's shoes than in any other class of footwear.

These points were taken into consideration when reviewing licenses and would lead, if adopted, to greater efficiency. The aim of the plan committee should be to concentrate the production of footwear in the more efficient plants and thus to reduce the numbers until each remaining plant is working at as near to capacity as possible. This has been partly augmented by the cancellation of over 20 licenses or portions of licenses and also by fostering of amalgamations.

It has been ascertained that, when investigating license applications, some of the principal factors taken into

---

(13) Opinion of units of the Footwear Trade.

consideration by the Plan Committee are:-

(1) Financial standing of the applicant in relation to his particular object.

(2) Types and quantities proposed in relation to ability of existing units to cover the market in both quality and quantity.

(3) Trade or technical experience and business ability of applicant.

(4) Process proposed to manufacture by and origin and availability of proposed machines required.

(5) Suitability of proposed premises for manufacturing purposes and whether registration by the Labour Department is or will be granted.

(6) Quality, design and workmanship of samples submitted or procurable.

(7) Reports of technical officer.

(8) Objections lodged by parties entitled to object.

All this planning points to the systematic organisation of the Industry.

To the extent that output could be concentrated in fewer firms than would normally operate, they could each produce at a greater capacity and by so doing lower their average costs. Planning of production and specialisation were conscious efforts, enforceable at law, to reduce costs and also to relate supply more closely to demand. By so doing they were ensuring a market for the output of the

restricted number of firms and thus bringing stability to the Industry.

Some evidence of their work can be gauged by the fact that, of over 180 applications for licenses since the plan was implemented in 1941, only 40 approximately were recommended and these mainly were for sales through their own shops only. Of 110 applications for extensions only 60 approximately were recommended for approval. Additions to plant were numerous, but these were in the main to foster the installation of new and modern machines.

With the expanded market made possible by Import Control regulations it was necessary to increase the number of units in the Industry but the plan adopted by the Industry made it possible for expansion along organised lines.

CHAPTER VIII.

RESTRICTIONS ON COMPETITION IMPOSED BY THE ACT. POSSIBLE DEFECTS AND REMEDIES THEREOF.

(a) Restrictions on Competition and possible defects:

The rationalisation principles described above put further restrictions on competition. By reason of not being able to manufacture any type or process unless already licensed, restrictions were imposed on the mobility of factors to move where they thought their best rewards would be. However, by doing this it prevented the Industry from over producing in any particular line to the extent that would result in acute competition.

Furthermore, it has been suggested that the plan has lead to a concentration of output. This has not meant that labour has been thrown out of employment. By reason of the contemporaneous expansion of the market through import controls, increased labour has been required. Mechanisation was increased when the footwear industry was rationalised. The majority of machines in use in the Industry require the attention of operatives and to this extent operatives are still required.

In so far as consumers' preferences were irrational by preferring one product to another similar one, it was sought to remove this type of waste of competition. This would remove, partially too, the wasteful competitive advertising.

All phases of the planning activities restricted competition to some degree and it was thus possible that in the process, the plan removed the incentive to maintain quality. It may also remove rational consumers' preferences as it could influence or compel demand to accept its selected supply. This of course, implies monopoly powers. This may lead to his inability, as previously, to occasionally buy at 'dumped' prices on a competitive market.(1) It also increases the Industry's power over the prices they can charge to the consumer and also over the price they have to pay for their factors of production.(2)

It is here worthy of note that the price mechanism has the function of keeping production and business from being conducted 'blindly' and 'without plan'(3). Alterations therein, indicate the best alternative uses for scarce resources in order to satisfy consumer's effective demand and thus tell the entrepreneurs what quantities and qualities are desired.

But this assumes Perfect Competition and as shown heretofore, many imperfections of competition exist in the Footwear Trade. The planning of footwear sought to remove some of the wastes of competition on the production side. But this did not mean that Competition was made any nearer the

---

(1) H.R. BURROWS and J.K. HORSEFIELD - "Economies of Planning, Principles, and Practice". (Pamphlet Series No.1) The American Academy of Political and Social Science. Philadelphia, 1935. p.9.
(2) J.E. MEADE. Op.cit. p.175.
(3) T.J. HOFF "Economic Calculation in a Socialist Society" Op.cit. p.191.

ideal of Perfect Competition. A major criterion of this latter type of competition is that there should be no artificial restrictions on the movements of factors.(4)

On the other hand rationalisation principles used in the Industry did not seek to dispense with the price mechanism in its entirety. But there may be a tendency that the remaining units in the Industry may become lethargic. They can control price or output and as they have no external competition their output can be sold regardless of quality. The onus is thus on the controlling body, to take measures to see that the monopoly powers, enlarged by law, do not wipe out any benefit the consumer should obtain from the better regard to his wants.

(b) Manner in which these defects were guarded against:

(1) By activities of Plan Committee. The Plan Committee obtained its powers through legal enactments and through the Bureau of Industry which was the State authority to see that the plan was implemented in the spirit of the controlling Act, viz., "... to promote the Economic Welfare of New Zealand ..."

Early in this phase of planning the Committee obtained the services of a competent technical adviser to assist them in their deliberations. His expert knowledge was used to assure that production standards and quality were maintained and improved upon where necessary.

---

(4) J.E. MEADE - supra. p.96.

The methods whereby production standards and product quality were maintained, can be best discussed under two broad headings, viz., Maintaining efficient means of manufacture and secondly, increasing the quality of the product.(5)

(a) Maintaining efficient means of manufacture:

The technical adviser maintained surveys of plant capacity, material requirements, labour needs, production allocations and the general working of the Specialisation plan. He also rendered assistance to the New Zealand Standards Institute in its formulation of footwear standards, and advised and assisted individual manufacturers on their problems.

Some aspects of the Plan Committee's work in this sphere are subjoined.

(1) Leather supplies: Checks on the correct use of leather were made and their use to the best advantages were encouraged. They also sought, by liaison with the Tanneries, the Factory Controller (in the war period) and Industries & Commerce (re imports of raw materials) to guarantee that the Industry was well supplied with leather and other necessary materials. Also that production was not hindered through lack of these sources, thereby jeopardising the plan to maintain adequate consumer products, the requirements of which, had been arrived at by regressive analysis. Up-to-date monthly

---

(5) Information herein contained has been adapted from the Newsletter of the Plan Committee as circulated to the Industry.

statistics were collected and these helped to trace the trend of production and correlate it to the community's needs.

(2) Plant & Machinery requirements: Here the fundamental idea was to encourage firms to maintain technical progress by fostering the use of new and modern plant. A close liaison with the Industries and Commerce Department, and with the main machinery supplying firm was maintained. The idea was to ensure that imports of machinery were available to those units needing them.

(3) Standardisation: Throughout the life of the Plan Committee the technical adviser worked in close co-operation with the New Zealand Standards Institute in their work on formulation of standards for footwear. This gave the Industry knowledge of the various grades and the legal requirements of those grades. These legal requirements were evolved to give a measure of protection to the consumer, in as much that he knew that certain minimum standards -- and incidentally necessary standards of quality for the work the shoe was reputed to be serviceable for -- would be guaranteed to him by the presence of the Trade Mark of the Standards Institute.(6) The growing dependence and acceptance, by consumers, of the Standard Mark as a criterion of serviceability of the product, has tended to make manufacturers conscious of its use.

(4) Industry Information: In order for a plan to be successful there must be both unity of purpose and clarity

---

(6) Legal authority obtained pursuant to the Standards Act 1941. N.Z. Statutes No.1941/13, p.141.

of purpose. This is best obtained by keeping the units in the Industry fully informed of the scope and workings of the planning authority.

Whenever information was obtained by the Plan Committee it was disseminated to the Industry by means of the newsletter or by special memoranda through the Federation of Footwear Manufacturers.

The research facilities of the New Zealand Shoe and Leather Research Association -- affiliated to the Department of Scientific and Industrial Research -- were used extensively by the Industry. Through this medium external economies were available to all units in the Industry.

A cost accounting thesis competition was organised by the Committee in conjunction with the New Zealand Society of Accountants. The object was to obtain costing methods that would be available for adoption by the Industry in order to improve costing methods within the Industry.

(5) Personnel Training: In this sphere much work was outlined but war-time conditions did not permit of its implementation. The idea was to train production experts, supervisors, foremen and artisans, in order that their training would be passed on to the workers in the Industry.

(b) Quality of Products:

The consumer is entitled to benefit from the implementation of the plan, for the consumers' welfare should be the ultimate end of any planning and organisation.

But to ensure that control over quality was available, besides using the concept of quality as a pre-requisite to the granting of a license, it is also necessary that other measures be taken to ensure maintenance of quality products. This was done by:

(1) Branding Regulations:(7)

These regulations were administered through the Industries and Commerce Department. Under their provisions it was an offence to sell footwear unless it was branded with the manufacturer's name or a representation thereof. The use of the Standard Mark was taken as an alternative to the branding requirements. These regulations tended to make the manufacturers quality conscious. With the degree of specialisation adopted in New Zealand it was possible for firms to still indulge in competition to some extent in the way of quality. By being forced to brand their name on their goods they sought to improve their quality in order to maintain their market.

(2) Other activities:

These included publicity regarding the comparative quality of New Zealand and overseas production -- incentive pay to increase the worker's interest in his job -- Research Associations to carry out investigation of alleged defects -- and designing competitions to increase the quality of products

---

(7) These regulations were issued pursuant to the Board of Trade Act 1919. Their full title is "The Board of Trade (Footwear Marking) Regulations 1946" - Statutory Regulations 1946 - Serial Number 1946/89.

and to incorporate the health maintaining properties, particularly in fashion shoes.

(II) By State Price Control:

(a) The monopolistic power over prices introduces the need for Price Control. This is a two-fold need.

Firstly, minimum price fixation(8) is necessary to stop any large firm with reserves from price cutting in order to force the smaller units out of the Industry. This could be brought about by such firms operating at less than normal profits (i.e., below the equilibrium position of E7a in fig.7). By so doing the remaining firms would earn increased profits as entry is restricted by licensing.

Secondly, maximum price fixation or control of prices is essential to safeguard the consumer from any exploitation by reason of the monopolistic powers over price that the Industry obtains by licensing. In times of competition (subject to the rigidities noted in Chapter X) if profits are above normal there will be an influx of factors. Through increased output prices will ultimately fall, until once again normal profits are made. With entry restricted, the price mechanism cannot bring this about and there is no stimulus to keep prices down to the normal level. It is here that the need arises to control prices to protect the consumer.

---

(8) Minimum price fixation is here meant, the taking of steps to fix a legal minimum price below which it is illegal to sell footwear.

(b) The Methods of Price Control used in the Industry:

(1) Before Licensing. From 1936 onwards, following the institution of the 40-hour working week and certain wage adjustments, limits to price increases were made. The Prevention of Profiteering Act 1936 made it an offence to increase prices by more than the increased costs resulting from the increased wage bill. This enactment did not fix prices. It merely gave to the Industries and Commerce Department power to investigate prices where disproportionate increased had taken place.(9)

(2) Board of Trade (Price Investigation) Regulations 1939.(10)

The enactment of these regulations was an endeavour to keep prices from rising disproportionately to costs.

Footwear manufacturers who increased prices after this date had to notify the Price Investigation Tribunal of their intention to raise prices and to give reasons therefor.

(3) The proclamation of an emergency under the Public Safety Conservation Act 1932: On the first of September 1939, pursuant to this Act, the Price Stabilization Emergency Regulations were gazetted(11).

No footwear prices could be increased beyond the

---

(9) See Appendices to the Journals 1936. H44. p.26.
(10) Enacted on 2/6/1939.
(11) These regulations were added to and amended from time to time. All enactments were consolidated into the Control of Prices Act 1947. For a detailed study of these regulations see "War-time Price Control in New Zealand" H.L. WISE, Wellington, 1943. 79pp. Also "Problems of Price Control", H.L. WISE, Wellington, 1944.

price ruling on the 1st September 1939. As this date receded, imported and locally produced raw materials and factors of production increased in cost, making it impossible to hold prices at this level. The Price Tribunal gave permission for prices to be increased to cover actual costs only. These increases were to be applicable only to goods incurring such increases and no additional profit was allowed. This denoted two radical departures from normal business activity. When manufacturers replaced raw materials they automatically costed the balance of old stocks at their replacement values. Profit percentages were always taken on the new costs.

The effect of this measure was to keep margins of profit the same as in 1939 but as costs increased the percentage of profit on cost of production tended to fall.

In general footwear prices were regulated on this principle up to about 1942.

On the 15th December 1942 the Economic Stabilization Emergency Regulations were gazetted. This plan was designed "to promote the economic stability of New Zealand by preventing or at least minimising inflation and by holding down the cost of living within narrow limits."(12) A range of essential commodities was tabulated and, as far as possible, standards of manufacture for these lines were adopted. Included in these commodities were Men's, Women's, Boy's and Girl's shoes made from New Zealand leather.(13) Prices for these lines were stabilised at the prices ruling on the 15th December 1942.

---

(12) Appendices to the Journals H44 - 1943. p.1.
(13) " " " " H44 - 1942. p.2.

increases in costs of manufacture were to be absorbed by the manufacturers, or failing this, the tendency was to subsidise costs of manufacture.

The method used in the Industry was:

(1) To allow increased costs to be borne by military contracts.

(2) To allow higher margins of profit on non essential lines.

(3) Enforcement of quotas for manufacture of essential or so-called 'utility' lines.

In effect this method meant military and non-essential lines were subsidising the manufacture of essential lines.

While military contracts absorbed a large proportion of the productive capacity this arrangement appeared to work. From 1945 on, the disparity in prices between essential and non-essential lines became more acute. Production of non essential lines was far more remunerative. This made the plan committee's activities increasingly difficult, by making production quotas hard to achieve.

Through co-operation between the Price Tribunal and the Plan Committee the solution of the problem was sought by means of standardised costing systems. Applications were investigated and prices fixed on their individual merits. In general, prices were fixed on the basis of cost of production plus profit margins.(14) These were maximum prices and lower prices could be charged if desired.

---

(14) See Appendix C for a short discussion on Total Costs and Normal Profits.

(III) Conclusion:

Unless the price fixed under price control is that which would have arisen in a "free" market, supply will not automatically be equated to demand. Thus the function of price as an allocator of resources, must be augmented by either production or consumption controls.(15) (16)

As production controls are administered by the Plan Committee, a close liaison between the State price control authority and this committee is necessary.

---

(15) K.E. BOULDING. Op.cit. p.150.
(16) Consumption Controls were introduced for a short period in N.Z. per medium of rationing.

CHAPTER IX.

THE ACHIEVEMENTS OF PLANNING.

(a) Excess Capacity:

Part of the aim of planning has been to achieve the equation of supply and demand at lower cost. This has been achieved in the Industry to the extent that there has been some reduction in the excess capacity inherent in the trade. It has meant, with the given conditions of demand, the taking of measures to push down the average cost (represented by the curve QQ1 in fig.7)[1] to a point nearer to the minimum average cost. It has also meant that with the costs as given, forcing of the average revenue curve (PP1 in fig.7) to the right till it intersected the average cost curve at an equilibrium point E7b. This point, by definition must be nearer to the lowest average cost.

By this movement the Industry should reap the benefits of increased scale of production, denoted by increasing size of the establishments and increasing value of outputs as well as of their volume. Efficiency too, will be denoted by increased volume and value of plant per establishment.

(b) Appraisal of the position.[2]

Table VIII gives details covering the licensing period 1938 to 1948. Firstly the size of establishments did increase

---

(1) Ch. V.
(2) Tables used throughout this chapter are compiled from statistical data in the Annual Reports of Factory Production.

reaching their peak in 1942. The value of products per head also increased but the purchasing power of money decreased in the period also. The volume of outputs per head shows increases again reaching their peak in 1942. Plant per establishment shows increases as well.

TABLE VIII.

Showing the Progress of Planning in the Footwear Industry.

Year	No. of Estab.	Aver. size by worker employed	Plant & Power per Estab. H.P.	Plant	Output per Estab. per week Pairs	Value & Output per Head per Year. Value	Pairs
				£	Nos.	£	Nos.
1938	70	44	20.1	2,065	969	450	1,057
1939	69	45	21.3	2,115	992	441	1,069
1940	71	53	24.0	2,328	1,229	500	1,121
1941	76	58	29.2	2,758	1,419	581	1,131
1942	76	68	29.1	2,939	1,722	640	1,359
1943	76	60	33.3	2,990	1,384	733	1,118
1944	80	57	33.7	2,900	1,385	781	1,177
1945	82	56	31.7	2,907	1,337	800	1,151
1946	90	52	31.6	2,929	1,195	764	1,107
1947	101	49	33.0	3,361	1,206	809	1,176
1948	113	47	32.9	N.A.	1,160	936	1,195

N.A. denotes information not available.

The rate of growth of the Volume of Production can be gauged from the following figures:-

In the period 1911 to 1932, the volume of output per head rose by 5% or approximately ¼% annually.
" " " 1932 to 1938, it increased 39% or 6½% annually.
" " " 1938 to 1942, " " 29% or 7¼% "
" " " 1938 to 1948 " " 13% or 1⅓% "

Apart from the period 1938 to 1942 no substantial increases in productivity per head seem to be effected by planning of the Industry.

Table IX emphasises this point.

TABLE IX.

Index Numbers of Volume of Factory Production per Person Engaged.
(Base 1938-39 = 100)

Year:	Footwear:	Group IV.	All Groups
1929(3)	56	90	90
1930	65	91	92
1931	66	88	90
1932	71	85	90
1933	81	88	94
1934	88	89	92
1935	93	93	95
1936	94	93	96
1937	96	98	98
1938	99	97	97
1939	100	100	100
1940	105	104	103
1941	110	102	103
1942	127	100	102
1943	104	106	107
1944	110	109	108
1945	107	130	129
1946	103	134	131
1947	110	146	140
1948	111	N.A.	N.A.

Some reasons for the decrease in the rate of growth per person employed after 1942 would be accounted for by the following:

---

(3) The remarkable growth in productivity of footwear in the period 1929 to 1935 is partly the effect of the tariff protection granted to the Industry.

(1) Shortage of manpower. Wartime manpower directions did ensure that the Industry had a reasonable supply of labour. However, this protection was shortlived, for early in 1945 manpower restrictions were lifted and the stimulus to go to alternative occupations was very great. This lead to decentralisation by the larger firms. They opened machine rooms and other part process factories in suburban and rural areas to attract labour.(4) These would tend to be small factories and treated as additional units in the statistics, would incline to decrease the size of the establishments and the volume of production per head.

(2) Material, and to a lesser extent machinery shortage, hampered the workings of the specialisation plans from 1943 onwards. The position however, was improving by 1945.(5)

(3) The needs of the War Economy. The Plan Committee reported that 16 temporary licenses were granted in the war period to meet the requirements of the Factory Controller(6). These were for the manufacture of specific wartime needs.

(4) Rehabilitation of ex-servicemen. In the latter years many ex-servicemen were set up in the footwear industry by rehabilitation assistance. The units they formed

---

(4) Branch factories were established in such towns as Invercargill, Gore, Temuka, Ashburton, New Brighton, Leeston, Rangiora, Blenheim, Picton, Wanganui, Dannevirke, Ngaruawahia, Thames, Waihi and Rotorua -- Appendices to the Journals 1947. H.44 - p.16.
(5) Footwear Plan Newsletter to the Industry.
(6) Ibid.

tended to be small ones. This would adversely affect the trend as shown up to 1942.

The last two mentioned reasons, of necessity, have priority over other forms of activity. But however, they serve to emphasise, that planning of the footwear industry, being but a segment of the total economy, is likely to cross paths with aims and ideals that take precedence, or are contrary to some of the expressed aims of the planning authorities.

Thus progress towards the goal of increased efficiency can be checked.

(c) Stability of Returns:

Returns to the manufacturer, measured in Net Value per establishment show a stability that was lacking in the pre-licensing days. (See Table IV.)

Previously this factor varied widely over the years. High levels have been recorded in 1924, 1928, 1930, 1931 and 1938 with intervening low periods reaching the lowest ebb in 1939. The manufacturers would look to this factor as a guide to the Stability of the Industry.

(d) The Optimum Firm:

The movement towards the optimum or representative firm can also be seen under licensing.

By an optimum firm is meant a firm that in existing conditions of technique and organising ability has the lowest average cost of production per unit when all costs which must

be covered in the long run, are included.(7)

The planning of the footwear industry focuses attention on both the technical and financial optimum as the main criteria that would govern the size of the optimum unit, assuming a market sufficient to absorb the whole production, of at least one unit of optimum size.

Machines are employed in teams geared to the capacity of such key machines as lasting and pulling over. These have a capacity, varying in degree depending on the style and quality of shoe made. They set the pace for the whole unit and a firm that wishes to produce to their capacity must employ duplicated services at the next or previous stage in order to reap the benefits from its operation.

But because of technical difficulties on the production side and limiting forces on the demand side this common denominator is not a practicable one. It is generally conceded that in New Zealand, with given demand conditions, a technical optimum would be somewhere in the vicinity of 3,000 pairs of shoes per week.

But as this would be but a small or comparatively small unit it is further conceded that at least two such technical optimum units could be managed together. Three such units are thought to incur disproportionate increases in overhead and would not be warranted.(8) This would make for

---

(7) E.A.G. ROBINSON. Op.cit. p.15.
(8) H.A. SILVERMAN - "Studies in Industrial Organisation", London, 1946. Ch.V. p.199 et.seq.

a size somewhere in the vicinity of 5 to 6,000 pairs per week.

However, we have assumed demand as a parameter. But if we consider the conditions of demand in New Zealand as outlined previously, we find the optimum size is much reduced. Smallness of the market making for a smaller degree of specialisation than in the United Kingdom -- fashion problems -- the need for a diversified production to cover all needs -- leads to a smaller optimum. It cannot be assessed with any degree of accuracy, but an ex member of the Footwear Plan Committee has stated that any firm producing between 1,000 and 2,000 pairs per week[9] has reached a fair degree of efficiency.

The increasing numbers of firms in the category of employing 51 or more operatives shows the trend towards the optimum. (See tables below).

TABLE X.[10]

No. of Firms in Each Group
Size based on Numbers of Employees engaged.

Year	Under 10:	11 to 20:	21 to 50:	51 to 100:	Over 100:	% of Firms above 51:	Total No. of Firms:
1930	25	16	15	10	5	21.1	71
1938(a)	30	10	13	8	9	24.3	70
1947(a)	21	17	32	16	15	30.7	101
1948(a)	27	22	30	21	13	30.1	113

(9) Output per operative is approximately 17½ to 20 pairs per week.

(10) Information obtained from Factory Statistics -- Government Printer, Wellington.
(a) Denotes information from Census & Statistics Dept.
N.A. " " not available.

TABLE XI.(10)

Persons engaged in each Size Group.
Categories as previously.

Year:	Under 10	11-20	21-50	51-100	Over 100	% in Groups of over 51:	Total Persons:
1930	126	239	455	730	757	64.4	2,307
1938(a)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	3,081
1947(a)	87	260	1089	1163	2368	71.1	4,967
1948(a)	110	358	1083	1461	2247	70.5	5,259

Both these tables show the increased grouping of both firms and personnel employed around the optimum and would suggest an achievement of planning and control.

(e) Further achievements of planning:

The success of the plan committee's activities can also be gauged from the organisation of the Industry on a war-time footing so that military contracts were fulfilled without creating a serious shortage of civilian footwear. It is interesting to note that the average quantity of leather footwear, excluding slippers, available to the civilian population during the three years 1937, 1938 and 1939 was 2,975,506 pairs, whereas in 1944, 3,089,764 pairs of leather footwear excluding slippers, were available for civilian use. Of this total only 313,632 pairs were imported in 1944 and no less than an average of 1,029,736 pairs yearly in the three years mentioned above.(11)

(11) From the Newsletter to the Industry circulated by the Plan Committee.

At the same time military footwear was being supplied to all the New Zealand forces and an increasing proportion was being exported to the "Allied" forces.(12)

Expansion in the Footwear Industry also meant expansion in allied industries.(13) To this extent it helped to increase the economic welfare of New Zealand.

(f) Conclusion:

Efficiency is usually denoted by increasing productivity and increasing size of establishment. Noticeable achievements in these directions were made up to 1942.

Forces however have been recorded that have checked this expansion.

On the other hand some notable achievements of planning have been the organisation of the Industry on a wartime footing, the stability of net returns, and the expansion of allied industries.

There still appears room for a marked increase in efficiency and this could possibly be brought about by a more thorough implementation of the rationalisation principles of the Industrial Efficiency Act.

It must be concluded that planning of Industry has had but a partial success.

---

(12) Appendices to Journal H44 - 1943. p.7. See also H44 - 1944 - page 19.

(13) Appendices to Journal H44 - 1943 - page 2 records a steady expansion in production (i.e., in Tanneries) to cope with the heavy demand for leather for military footwear, etc.

PART FOUR

SPECIFIC EFFECTS OF PLANNING OF THE INDUSTRY.

CHAPTER X.

SOME SPECIFIC EFFECTS OF PLANNING.

(a) Effects on the Pricing Mechanism:

The pricing mechanism under free enterprise works as an allocator of resources and of incomes. It has been noted (Ch.VIII) that the price mechanism stops production and business from being conducted blindly and without plan. It provides the basis for economic calculations, i.e., it will tend, through the allocating of resources to their best alternative uses, to ensure that consumers' demand is met, and that entrepreneurs have a reasonable profit. Through this function of allocating resources it also acts as an allocator of incomes.

In our present day society there has been a growing tendency to interfere with the free formation of prices. Producers try to alter its functions in order, partly to assure themselves a fixed income, partly to protect their 'vested' interests, and partly to eliminate competition and the insecurity inherent therein.(1)

Equally important is the interference of free formation of prices for labour by the efforts of trade unions.

Governments, too, alter its function. The Licensing provisions of the Industrial Efficiency Act 1936 gives legal sanction to the interference with the market mechanism, by tending to emphasise its function of an allocator of

---

(1) T.J. HOFF. Op.cit. p.193.

incomes. But having authorised this the State must introduce devices for the protection of the consumer. These have taken the form of quality, production, and price controls, as well as allocative measures. Again the working of the price mechanism is affected.

The opening paragraph of this chapter is an outline of the perfect market ideal, aimed at by would be 'planners', and held up by the capitalistic people as the results of free enterprise. But its operations are fraught with practical difficulties (2) and the theoretical smoothness of the working of the system is frustrated. There can be no guarantee, therefore, that the maximum welfare is anything like attained. We have also seen that planning of the Industry has not brought this ideal market mechanism any nearer to achievement.

(b) The effects on the Consumer:

Some nine months before the licensing of the Industry, the consumer's freedom of choice as between imported and locally produced goods had already been restricted by the implementation of Import Control. The scope of this thesis has been to show the workings of the planning of the Industry within this given framework of Economic Nationalism.

(1) The coverage of Consumer's wants.

The planning of footwear production has sought to give the consumer a complete coverage of types of footwear in

---

(2) For details of these difficulties see H.R. BURROWS and J.K. HORSEFIELD "Economics of Planning, Principles, and Practice". Op.cit. pp3-7.

as many styles and processes as are possible within its framework.

The authorities based their production plans on the various types available in the days of importations. They established the consumption of these various types of footwear by means of regression analysis.(3) In order to keep up-to-date on consumer requirements, six-monthly returns from retailers were obtained. These gave the trend of sales. The monthly abstract of statistics of production showed the types of footwear produced and the authorities could judge how best to divert production to meet current needs. When shortages were imminent provisions for Imports were made. Thus the consumer would have a volume of production equally as large as previously and at the same time adapted to his needs, as expressed by his purchases of various lines. The average of the three years prior to licensing showed that 6,367,067 pairs of footwear from all sources were available for consumption. In 1948 this total stood at 7,569,256 pairs, an increase of 19%.(4)

Further measures to ensure the consumer's welfare were also taken.

(a) A special survey throughout New Zealand, was made of children's foot sizes.(5) This helped to establish the multiple fittings needed to give a comprehensive coverage

---

(3) The Plan Committee's Newsletter to the Industry. Op.cit.
(4) The per capital increase is 7.8%.
(5) Appendices to the Journals 1946 H44. p.18.

of the requirements of children's wear. It assures correct fitting and health maintaining properties so essential to growing feet.

(b) Consumers had the benefit of overseas fashion trends and changes in style of footwear, by the larger manufacturers obtaining permission, from patent holders, to make replicas of the most popular overseas styles. All appropriate details of making were supplied by the overseas agents, and periodical checks were made on production, by sample ranges being returned to the patent holders for comment, criticism, and incorporation of new ideas into future production.(6)

(c) Other factories in New Zealand are branches of well known English footwear firms and their production is guided by English standards of make.(6)

On the quality side measures have been taken to improve the standard of New Zealand footwear above that ruling immediately prior to licensing. The various forms of quality controls have been discussed above in Ch.VIII.

Some improvement in quality and serviceability has been noted. Mr. F.H. Caughley, research officer of the New Zealand Leather and Shoe Research Association, has stated that its 'qualities' compared favourably with overseas production. The life of the shoe bears testimony to the quality thereof and, states Mr. Caughley, the New Zealand shoe does not have to be discarded any earlier than its counterpart in countries

---

(6) From Trade Sources.

with a similar way of life.(7) This of course does not refer to its appearance and the way it fits.

Imports of both men's and women's shoes were made in 1947 licensing period. Retailers,(8) generally, have expressed the opinion that these shoes have not been of as good a quality as identical New Zealand shoes of the same price range. For instance imported women's utility lace up shoes retailed at 68/6 per pair, which was the price of a much higher quality New Zealand product. The N.Z. women's utility shoe retailed in this period at 48/6. Similarly with men's medium quality shoes, the imported shoe retailed at 65/- per pair, whereas the best grade high quality New Zealand product retailed at 54/6. Wholesalers found trouble in selling these stocks and ultimately liquidated them at less than cost. The majority of the men's medium quality shoes ultimately were jobbed out by retailers at 37/6 per pair.

They also state that New Zealand calf and chrome leather shoes are as good as pre war quality, but that this cannot be said for kid and glace kid shoes. The demand, throughout the world, for this raw material has been greatly expanded in recent years and much sub-standard material has found its way on to the market.

The technical footwear adviser to the plan committee has recorded that New Zealand shoes have increased in quality but makes the reservation that further improvement could be

---

(7) The Press, Christchurch, June 28 1950.

(8) Details obtained in the course of interviews with retailers who have or control footwear retail stores throughout New Zealand.

made.(9)

Price control on footwear prices has sought to keep footwear prices from showing any disproportionate increases in comparison with other consumer goods' prices. The consumer's price index as at June 1949 showed footwear prices to be 1003 while the all groups' index was 1002.(10) Food prices stood at 1007.

(2) Consumer's freedom of choice:

The licensing of the Industry has meant that no fewer than 100 firms who applied for licenses and have not had them granted, have not been able to bring their production to the market.(11) The consumer has not had the benefit of this prospective production and to this extent his freedom of choice has been restricted. Rationalisation within the Industry has also curtailed his choice.

By the idea of consumers freedom of choice is implied some concept of the sovereignity of the consumer. It is taken that he determines the nature and intensity of his wants. His preferences will be reflected in the effective demand at the ruling price. Through this he influences production and directs it to the fulfilment of his wants.(12)

This notion implies he is a completely free and

---

(9) W. DENBY. Op.cit. (Article unpublished).
(10) Prior to 1949 the Footwear Prices Index was incorporated in a composite index of clothing and footwear.
(11) Of course the instabilities that may have been generated by this increased production may have had other adverse effects.
(12) T.B. HOFF. Op.cit. p.74.

autonomous individual. He is the ultimate and exacting judge of what is to be produced.

But the consumer "can only choose between those goods which the producers have been kind enough to supply"(13). In the process, he is also influenced by advertisements, cultural and social patterns and may, through ignorance of all prices ruling in the market, or of the technical properties of the goods, be unable to exercise his freedom of choice effectively.

Under planning, the consumer can still exercise his choice between the goods available to him.

(3) Conclusion:

From the above it appears that the consumer's welfare has at least been maintained, through the measures taken, under the licensing provisions. But it gives but an objective valuation of his welfare.

Welfare includes some notion of satisfactions and these are usually subjective valuations. They are thus unmeasurable.

Furthermore when one act is done in the economic sphere, it may have an opposite effect on some other sector of the economy, thereby affecting the individual. This involves interpersonal comparisons of utility in order to evaluate the net gain or loss to welfare, and, as such valuations are

---

(13) H.R. BURROWS and J.K. HORSEFIELD. Op.cit. p.6.

impossible, it cannot be stated if the general welfare of the public in New Zealand has been increased or decreased.

Effects of Bureaucracy: One of the most popular objections against state control and planning in industry is that it entails much bureaucracy and high costs. In the footwear plan committee's activities, it has been noted above that its actions have to be confirmed by the Bureau of Industry, acting as the Industrial Licensing Authority for the Government.

This must entail some delay. Often it is necessary to make quick decisions in order to gain thereby. But with the necessity to await confirmation from the Bureau the delay may wipe out the benefit to be gained by a quick decision. In time the economic activity becomes geared to the administrative delays that are, to some extent, unavoidable in governmental direction. Thus the whole cosmos of activity is slowed down and quick decisions to meet the market changes are generally impossible.

Some fears of this have been expressed at various times(14). It was thought that the Bureau would be unwieldly as it consisted of busy departmental heads and business men. It soon became apparent that they had to delegate powers and a permanent committee of 5 was set working in a full time capacity.(15)

It was also feared that it would merely become a

---

(14) B.R. TURNER. Op.cit. p.115.
(15) Ibid. p.116.

licensing authority and keep people in business rather than making industry efficient.(16) However, the formulation of industrial plans is an attempt to achieve efficiency and here the machinery exists and is apparently efficient.(17)

The planning committee set up under this scheme for the Industry consists mainly of personnel who have a first class knowledge of the Industry's requirements and can direct its activities efficiently. No details of any delays are recorded, but it is stated that on almost every occasion the Bureau confirmed the committee's recommendations. Thus the Industry was guided by technical men who had a working knowledge of the trade.

The money costs of planning were not high. A small levy was collected from each unit based on the value of their output. This in the main was used to foster research work and other activities outlined in the plan.

The real costs of any delays that may have occurred cannot be gauged in money costs. It is inevitable that some delays must occur when some directions of industry are taken away from individual units and placed in the hands of a central controlling body. Of course the gains accruing to Industry from such a procedure, may more than offset the wastage of time incurred in making decisions, or the alternative may be

---

(16) Some evidence of this appears to exist judging by the numbers of licensed industries compared with the Industrial plans formulated for their rationalisation. See Appendices to the Journal H44 series.

(17) Supra p.116.

the case. This could have been one of the causes for the decision to apply for delicensing. However, the direction through the Footwear Manufacturers' Association will also incur delays, but by reason of their guidance being more direct, then the time lag could be reduced somewhat.

CHAPTER XI.

SUMMARY AND CONCLUSIONS.

(a) Future Trends:

This paper has dealt with the effects of planning and control in the Industry up to 31st March 1949.

Further achievements of planning are still possible, mainly through a more thorough degree of specialisation, the establishment of incentive pay schemes, and the implementation of a training scheme for skilled operatives. Through these measures the Industry could operate at still lower costs by reason of less excess capacity. The consumer's surplus would thereby be increased and his welfare extended.

However, on the 3rd of August 1949 the Industry applied for and was granted a revocation of its license.(1)

Some phases of the Industrial Efficiency Act are now being carried out by the New Zealand Footwear Manufacturers' Federation. These include Specialisation, statistical surveys, allocative functions and costing methods for the unification of the working of the Industry.

But the Industry has lost the benefits of licensing. As entry into the Industry is unrestricted new units will arise. Also these units, and for that matter old units need

---

(1) By virtue of the Industry Licensing (Footwear Manufacture) Revocation Notice 1949. Serial Number 1949/109. Full reasons for this request are unknown. Concern had at various times been expressed that the small units were not obtaining protection from unlicensed units, by legal action not being taken by the Bureau. This may have been a contributing cause. Newsletter to the Industry.

not submit to rationalisation and cannot be legally forced to do so. Concerted trade practices could perhaps stop their progress and force these units to submit to such plans.

While imported machinery is still controlled by exchange control regulations then all applications therefore, must be presented to the Industrial Division of the Industries and Commerce Department before a license to import is granted. Their recommendations must take into account the 'business prospects' of the applicant and the scope for a fair return on his activities. This still gives a measure of indirect control to the State.

In the future the Industry could be subject to instabilities through competitive wastes, or, alternatively, if it is free to rationalise itself, then prices or supply may be fixed to return higher than normal profits. The public could thus be worse off.

While price control still exists the State can control this factor in the interests of the consumer. It can also, if necessary, guarantee normal profits to the Industry if the State's price policy is the fixation of minimum prices as opposed to price regulation and control. On the other hand, through keener competition the public could be better off.

The public should not, in the interests of their welfare, be subject to control arrangements that exploit their relatively inelastic demand for this necessitous article.

If the Industry is to have protection from overseas competition then it should submit to rationalisation and control, or, alternatively, have restored it, competition, with its good and bad effects so much talked of, not only by the Industry, but also by the public.

Of course this opens up other problems, mainly ethical or moral, and to that extent is outside the scope of this thesis.

(b) Summary:

The following points have been made in this paper:-

(1) The conditions in the Industry prior to 1938 focused attention on the instabilities of the relatively uncontrolled activities of the various firms.

(2) These instabilities were noticeable in a large excess capacity in the Industry -- a high costing structure -- a relatively low quality output, often at less than remunerative prices -- and increasing imperfections of competition and the market processes.

(3) It was clear that stability was necessary for a well balanced production. Normal profits would then be made by the Industry.

(4) The restrictions on Imports further emphasised the need for a systematic expansion of the Industry on organised lines to cover the enlarged market.

(5) The extension of the Industrial Efficiency Act

to the Industry brought this stability and made provision for an organised expansion of the Industry.

(6) Through Rationalisation and Specialisation it brought about a measure of increased efficiency to the Industry, i.e., a reduction in excess capacity.

(7) The Industry should be so organised that it:

(1) perpetuates the optimum firm
(2) maintains quality at reasonable prices
(3) brings in sufficient revenue to cover all expenses and give Normal Profits to the Industry.

(8) Rationalisation and Specialisation however, impose restrictions on competition.

(9) This control of competition creates a legally sanctioned monopolistic structure in the Industry.

(10) This structure tends to place the public at a disadvantage and the small firm at the mercy of the large firm.

(11) In order to remove these defects there are needed:

(1) quality and production standards
(2) research and information facilities to disseminate new and improved ideas of production.
(3) a policy of price control.

(12) This price control policy must be so implemented that the firm covers costs and earns a Normal Profit. This policy places emphasis on the function of the price mechanism as an allocator of incomes.

(13) To the extent that planning restricts the consumer's possible choice, the Planning Authority must take steps to safeguard his interests.

(14) In the Planning Committee's activities this has been done by:

(1) Regressive analysis and statistical surveys to gauge the intensity of his wants for various types and styles of shoes.

(2) Maintenance of quality standards.

(3) Maintenance of technical progress and fashion trends in the Industry.

(c) Conclusions:

The expansion of the Footwear Manufacturing Industry has been an integral part of the industrial development of New Zealand. This development has been designed to maintain Full Employment of both persons and materials, and also to overcome the serious potential menace of unemployment in a simple economic environment such as characterised New Zealand for many years.

The organisation of the Industry pursuant to the Industrial Efficiency Act has meant the regulating of the entrance of new units into the industry, in a manner calculated to have full regard for an orderly long term development.

The introduction of the footwear plan, meant the development along systematic organised lines, to provide for the elimination of wastes, the application of efficient methods of co-ordination of production, the encouragement of

scientific and industrial research, the formulation of standard specifications, standard trade descriptions, and the promotion of schemes to better the social welfare of persons engaged in the Industry.

Its achievements have shown that these controls have been partially successful in their purposes.

The haphazard conditions of operations in the Industry prior to 1939 have shown that some form of controls was necessary to give stability to the Industry.

The rationalisation principles of the Industrial Efficiency Act give the best means of achieving this stability. Decisions could be legally enforced and also the State was able to take measures to see that the consumer's welfare was protected.

The partial success achieved in this decade of planning and control points to the benefits obtainable by such measures. It also shows that a greater success could have been achieved by a more thorough implementation of planning.

The effects of such planning on the general welfare of the public are hard to assess as any comparison involves subjective valuations.

The planning of the Industry points to the importance of co-ordination of such planning activities, and the need for unity of purpose as well as clarity of purpose. Such planning, of part only, of economic activity is liable to clash with other ideals and its effectiveness as a form of

control can thereby be jeopardised.

If planning is to be successful then there is a need for an over-riding ideal and the correlation of activity to this one aim.

BIBLIOGRAPHY.

Throughout this thesis the under-mentioned sources of reference have been used. It is by no means an exhaustive list, but is meant but to refer to the publications most frequently quoted from.

PRIMARY DATA:

1. Appendices to the Journals 1929 - H44A Footwear Industry Preliminary Report (Dealing with the Production of Footwear) of the Committee of Enquiry 24pp. Government Printer (Wellington).

2. Appendices to the Journals H44 series. Government Printer (Wellington).

3. BILLING, G.C. "Size and Efficiency in New Zealand Industry". Economic Record (Melbourne) Vol.XIII June 1937.

4. Census & Statistics Department Annual Reports of Factory Production (Wellington).

5. Census & Statistics Department Monthly Abstract of Statistics (Wellington).

6. DENBY, W. The Footwear Manufacturing Industry. Department of Industries and Commerce BULLETIN Vol.I. No.5 1949 (Restricted use) by permission.

7. The Footwear Industrial Plan Committee's Newsletters to the Industry (Unpublished) - used by permission.

SECONDARY DATA:

1. Board of Trade Working Party Report "Boots and Shoes" H.M. Stationery Office (London) 1946 190pp.

2. BOULDING, K.E. "Economic Analysis" Revised Edition (New York) 1948. 884pp.

3. BURROWS, H.R. and HORSEFIELD, J.K. "Economies of Planning Principles, and Practices",(Pamphlet Series No.1) American Academy of Political and Social Service, Philadelphia 1935 32pp.

4. CAMERON, ROY E. "The Victoria Boot and Shoe Industry" Economic Record (Melbourne) Vol.XIII June 1937.

5. CHAMBERLIN, E.H. "The Theory of Monopolistic Competition" (Harvard University Press) Sixth Edition 1948, 314pp.

6. HOFF, T.J.B. "Economic Calculations in Socialist Society" (London) 1949. 264pp.

7. MANDER, A.E. "New Zealand Industries and the Tariff" (H.H. Tombs Ltd., Wellington) 1933. 47pp.

8. MEADE, J.E. "An Introduction to Economic Analysis and Policy" (Oxford) Second Edition. 396pp.

9. ROBINSON, E.A.G. "The Structure of Competitive Industry" (Cambridge) 1945. 179pp.

10. SUTCH, W.B. "Recent Economic Changes in New Zealand" (Wellington) 1936. 238pp.

11. TURNER, B.R. "The State and Industry" Economic Record (Melbourne) October 1939. (Supplement).

12. WISE, H.L. "Post War Industrial Planning in New Zealand" (Wellington) 1944. 48pp.

13. ———— "War time Price Control in New Zealand" (Wellington) 1943. 79pp.

APPENDICES

A. SOME CHARACTERISTICS OF THE INDUSTRY.

B. THE MONOPOLY OF THE BRITISH UNITED SHOE MACHINERY COMPANY.

C. NORMAL PROFITS.

APPENDIX (A)

Some Characteristics of the Industry.

(a) Raw Materials used:

"The most significant concept of economic efficiency", states Boulding "is that of the production of utility per man hour of life".(1) But, however, this does not lend itself to quantitative measurement. A concept must be found that will, in some degree, measure economic progress. This concept may, ultimately, be less significant, but it will give an approximate measure of such. An index of volume of physical production could be used as such an indicator.

If such an index is to be used then it is fitting that requirements of efficiency in that production should be noted.

The footwear manufacturing industry will need technical efficiency of plant, machinery and management, but will, in particular, require adequate supplies of raw materials at reasonable prices.

These materials will include:-(2)

Bottom leather bends,
bottom leather shoulders and bellies,
outside upper leathers of many kinds,
lining leathers,
rubber in various forms,
paper and pulp.

---

(1) K.E. BOULDING. Op.cit. p.649.
(2) From "The Boot and Shoe Industry". Op.cit. p.2 et.seq.

composition materials, such as felt,
wood,
steel,
non-ferrous metals,
cotton and linen threads,
latex and rubber adhesives,
other than rubber adhesives,
plastics, including celluloid,
paints, varnishes, and finishes in many forms.

The main material is leather. The bulk thereof is produced locally. Some upper leathers are imported, mainly for use in women's fashion shoes. These include patent leathers and kid and suede kid leathers. Production of the former is climatically impossible in New Zealand, while no herds of the latter, for raw material supplies, exist in the country.

The efficiency of the Industry depends to a large extent on good buying and good using of leather which require the exercise of personal skill and knowledge only to be gained by long experience.

The majority of the other materials are imported, or have imported components in them.

(b) Method of manufacture:

Footwear manufacture is divided into a large number of operations, mainly performed by machinery, which is highly specialised but is not automatic in operation. Factories

are usually organised on a departmental basis under the following headings:-

(1) Clicking Department: Uppers and linings are cut in this section. The cutting of uppers is a highly skilled process and is usually performed by male operatives. Linings are cut by juniors under training.

(2) Closing Department: The several parts of the uppers are stitched together in this section. It involves many operations, mostly mechanical and is done by female labour.

(3) Rough Stuff Department: Sole and bottom leathers are cut and sundry grades are sorted. Male operatives are employed in the press cutting part and female operatives in the preparing section.

(4) Lasting and Making Department: The closed upper is here shaped on to a last and the sole is attached. Attaching may be effected by machine sewing or, cementing (women's footwear mainly). Male labour only is employed.

(5) Finishing Department: Soles are smoothed and edges,heels etc. finished. A surface finish is put on the sole. It involves a range of mechanical processes carried out entirely by male labour.

(6) Cleaning and Despatch Department: Uppers are glossed and cleaned and the completed product is boxed and despatched. Female labour only is employed

(c) Costs in the Industry:

By far the biggest percentage of costs are found in materials and labour. It has been assessed that materials amount to about 48 to 52% of total cost of production (before accountancy profit added) -- productive labour costs from 30 to 42% -- and unproductive labour to about 3 to 5% varying on classification given to this item.

The following items are likely to appear in overhead costs:-

(1) Salaries: (principals, directors fees, clerks, one foreman in each department).

(2) Rents and rates.

(3) Light, power and heat.

(4) Machine rentals (royalties charged direct).

(5) Insurances -- stock etc.

(6) Insurance -- Employers liability.

(7) Bank charges and interest.

(8) Repairs to buildings and machinery.

(9) Advertising.

(10) Printing, stationery, office expenses, etc.

(11) Cartage out.

(12) Bad debts.

(13) Legal and audit charges.

(14) Holiday Pay.

(15) Depreciation

(16) Packings (boxes charged direct).

(d) Methods of Distribution:

A highly complex system of distribution has existed for some time in the Industry. Some factories run their own wholesale organisation, while others extend their control into the retail field as well.

The chief methods of distribution are as follows:-

(a) Wholesale:- They make direct purchases from manufacturers, carry stocks, and make sales to retailers.

(b) Multiple retailers:- Make direct purchases from manufacturers and wholesalers. If they are multiple manufacturers, they will make transfers from their own factory as well. They carry stocks and usually have a central warehouse and distribute to their own stores.

(c) Large Stores:- Direct purchases are made from manufacturers and wholesalers.

(d) Small retailers:- Direct purchases from manufacturers and wholesalers.

APPENDIX (B)

The Monopoly of the British United Shoe Machinery Company Ltd.(1)

The majority of the machines in use in the New Zealand footwear factories are the product of this Company. They supply the key machines in the main shoe making departments, other than the closing room.(2)

(a) The Control of the Company:

The New Zealand company is a branch of the English company. In turn this British company is controlled by the United Shoe Machinery Corporation of Boston, Mass. U.S.A. They own £2,185,390 of the total ordinary share capital of £2,759,961 of the British Company.(3) Both the British and the American companies manufacture similar types of machinery.

The working party report notes that the company produces between 80% and 90% of the shoe machines used in England and in the Dominions.(4) The United Shoe Machinery Corporation holds a similar position in the United States and Canada.

(b) Leasing system:

The company's position in the Industry is greatly strengthened by their policy of renting machines. None of their key machines can be purchased outright. A fixed yearly

---

(1) Hereinafter referred to as "the Company".
(2) In the main the closing rooms use Singer Sewing Machine Company's machines. These are sold outright to the firms.
(3) Working Party Reports: "Boots & Shoes" H.M. Stationery Office, London. 1946: page 100. The dividend paid in 1944 was 13½% tax free.
(4) Ibid. p.106.

rental is payable and under the terms of the lease the lessee undertakes to use the machine for 20 years, failing which, to pay a sum of money as compensation.

A further variable rent, or royalty is also payable. This varies, in the total sum payable according to the output. The key machines have a meter attached to them.

This renting of key machines, however, carries with it an obligation to rent other machines (known as 'tying clauses'). In practice this has meant that all machines in the main departments are the product of this company. Usually there is inserted in the lease an alternative system, but this means that, if the Company's machines are not used throughout the firm, higher rentals are payable.(5)

(c) Advantages of the Scheme:

(1) The main advantage appears to be the ability of the manufacturer to keep his plant up-to-date without heavy outlay of capital.

(2) The close liaison between the English and the American companies has meant that new machines are normally adopted at comparable speeds in the two countries.(6) Through this method, the Dominions benefit also.

(3) Each company has its own research organisation. Exchange of ideas and results lead to comparative rates of technical progress in both countries and through their distributive organisations the whole western world benefits. It

---

(5) The Standard Engineering Company appears to be the only other company making similar machines and operating in the British Empire. It is doubtful if their machines are used in more than 5% of the local Industry.

(6) Working Party Report. Op.cit. p.101.

is doubtful if smaller firms could finance such research organisations. The footwear Industry would thus stand to lose if the monopoly position of this company was removed.

Disadvantages:

(1) By far the greatest disadvantage lies in the uncontrolled monopoly position of the Company.

(a) The fixed rents could be classed as general scarcity rents for the use of this economically scarce factor of plant in this particular industry. But by its monopolistic position it can include a specific scarcity rent known as a differential rent.

(b) The royalty payments are in the nature of monopoly profits. They are payments obtained by reason of the Company's almost complete control of some of the scarce factors needed to manufacture footwear machinery.

The cost structure of the footwear manufacturing industry is increased by the inclusion of the abnormal rents or profits to the company. They are not needed to keep the Company in the business of manufacturing plant. Their removal would thus not cause instability in the Industry, but would, at the same time, increase consumers' welfare, through decreased costs to the footwear manufacturers.

(2) The restrictions imposed on the mobility of factors by the imposition of tying clauses could react against the technical progress of the Industry. Incentives to create new ideas of machinery development are jeopardised by the fact

that the entrepreneur is estopped, by the terms of his lease, from using them.

Conclusions:

The monopoly position of the company has been built up against a background of litigation with possible competitors....."This has crippled the latter financially and forced them either to go out of business or to amalgamate with the British United Shoe Machinery Company."(7)

In other words their actions have led to a restriction in competition. This formation of a monopolistic structure means that the company can either control price or output. In the public interest, it has been noted that quality, production and price controls thus become necessary.(8)

Some control over the price the Company can charge should be instituted, in the interests of the public welfare.

The working party report(9) is of the opinion that if the tying clauses were removed "there is no doubt this should give a great impetus to the Standard Engineering Company."

In the short run this may be so, the result too, may include some reduction in the monopoly rents earned by the British United Shoe Machinery Company. But there apparently are great economies to be gained by large-scale operations. To this extent the Company could outbid the Standard Company for the factors of production, and could perhaps undercut this latter company in price and by increased services.

---

(7) Ibid. p.100.
(8) Chapter VIII.
(9) Supra p.103.

The ultimate result is highly indefinite. If the Standard Engineering Company can increase its sales to the detriment of the British United Shoe Machinery Company, the position is still indeterminate.

The field will be one of imperfect oligopoly. Analytically we can only generalise. There seems to be no reason why the equilibrium position ultimately arrived at should not range from a pure monopoly position down to the tangency position of normal profits.(10) The possibility of a 'gentlemen's agreement' suggests that prices may be set by agreement to return more than normal profits to both companies.

The conclusion is that the power of the British United Shoe Machinery Company Limited over the price of this scarce factor should be controlled by law.

---

(10) E.H. CHAMBERLIN. Op.cit. p.100 et.seq.

APPENDIX (C)

Normal Profits.

Throughout the foregoing study it has frequently been mentioned that the entrepreneur seeks to make normal profits(1) as the necessary inducement to stay in this particular business. A brief discussion of this concept is appended below.

(a) Total Costs:

When we refer to total costs we mean total outlay plus normal profits.(2) This is the minimum that entrepreneurs require to keep them in that particular business.

Total outlay includes the total cash payments to factors or inputs plus the cost of all things the firm owned at the beginning of the year. These are what Boulding terms 'virtual expenses'.(3) This concept would include:-

(a) Remuneration to the entrepreneur, if employed, measured in terms of his next best alternative occupation.

(b) Other things owned by the firm, valued at the rate of their transfer earnings. That is they would earn general scarcity rents.

(c) Payments for inputs. To arrive at Normal Profits we have firstly to find out what Total Revenue consists of. This would be a summation of the Total Cash received

---

(1) Ch.V. Supra.
(2) K.E. BOULDING. Op.cit. p.457.
(3) Ibid. p.422.

for the output and the value of all things sold by the firm to itself at the end of the trading period. These are known as the virtual receipts.(4) The difference between the Total Revenue and the Total outlay is actual profit.(5) Normal Profit is a deduction from this concept of actual profit.

(b) Normal profits:

Roll (6) suggests that normal profits include --

(1) Wages of management.

(2) Interest on capital.

(3) General Scarcity Rents.

All other profits are abnormal or Monopoly Profits.(7)

In the concept of Total outlay above we have included wages of management and general scarcity rents. However, the management will look for a risk premium as well, due to the lesser security of the management not being a salaried person.

Interest on capital is a reward to counterbalance the inconveniences and risk of the entrepreneur having his savings in the form of goods or in factors to be transferred into goods.

Normal Profits will include then, both Interest on Capital and the risk premium to the management, if employed.

In arriving at a fair profit, the Price controlling authority will include some such concept as outlined above,

---

(4) Ibid. p.422.
(5) Ibid. p.457.
(6) E. ROLL "Elements of Economic Theory" (Oxford) 1947. pp195-196.
(7) Ibid p.197.

i.e., Total outlay plus Normal Profit.

However, the Industry, seeking to maximise its profits desires to fix prices to include actual profits. In the footwear trade the abnormal profits would tend to include:

(1) Differential Rents: This is a payment for a special scarcity in the Industry. It may arise through many causes but usually arises through the special ability of management. It may arise through indivisibility of factors. In the Industry some factors will obtain a return just equal to their earnings in the next best alternative use. They are on the margin of transference. Where the returns from a factor exceed this earning then, the difference between the actual and the transfer earnings is a differential rent.

(2) Monopoly Profits: These arise from the restriction of output in order to maximise profit. They usually persist because of some special legal sanction, such as patent rights or restriction on entry. Here scarcities are artificially produced.

(c) Conclusions:

From ethical standards it is usually conceded that Monopoly Profits should be guarded against. This, however, still leaves the problem of differential rents. Entrepreneurs earning such rents will tend to impute them into costs, making a single cost structure for the Industry. Even this procedure still leaves the problem of valuation of some of the elements of total cost.

In return for the security obtained from the licensing of the Industry, the units comprising it must agree to forego some of their expected benefits in the interests of the public welfare.

Normal profits as outlined above should be made. By so doing the inducement to entrepreneurs to perfect their business technique is not impaired. On the other hand the non-inclusion of monopoly profits is in the best interests of the general welfare of the people of New Zealand.

But the measurement of normal profits is but a theoretical concept. In practice it would tend to be an ex poste appraisal of the situation.